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Legislative Audit Division

State of Montana

Report to the Legislature

April 1997

Financial-Compliance Audit

The University of Montana

All Campuses, including Missoula, Tech, Western and Helena
For the Two Fiscal Years Ended June 30, 1996

This report contains eight recommendations directed to the university. These recommendations address issues related to:

- Student financial assistance.
- Cash controls.
- Compliance with the Student Right-To-Know and Campus Security Act.
- Lack of written contracts.
- Accounting for construction and bond activity.

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Government Auditing Standards, the Single Audit Act of 1984 and Amendments of 1996, and OMB Circular A-128 require the auditor to issue certain financial, internal control, and compliance reports. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 1995 has been issued. Copies of the Single Audit Report can be obtained by contacting:

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April 1997

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on The University of Montana - Missoula, including the College of Technology (formerly known as the Missoula Vocational Technical Center); Montana Tech of The University of Montana, including the Division of Technology (formerly known as the Butte Vocational Technical Center); Western Montana College of The University of Montana for fiscal years 1994-95 and 1995-96; and Helena College of Technology of The University of Montana (formerly known as the Helena Vocational Technical Center) for fiscal year 1995-96. The results of audit work on these four campuses have been combined in one document at the request of The University of Montana management.

The report recommendations are addressed to U of M - Missoula but relate to specific campuses. This report includes recommendations regarding student financial assistance, cash controls, compliance with the Student Right-to-Know and Campus Security Act, lack of written contracts and recording construction and bond activity.

The university's written response to the audit recommendations is included at the end of this report.

We thank the president, chancellors and their staffs for their cooperation and assistance throughout the audit.

Respectfully submitted,

Scott A. Seacat
Legislative Auditor

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Legislative Audit Division

Financial-Compliance Audit

The University of Montana

All Campuses, including Missoula, Tech, Western and Helena

Members of the audit staff involved in this audit were Pearl Allen, Pete Brustkern, Laurie Evans, Wayne D. Guazzo, Geri Hoffman, Frieda Houser, Scott Hoversland, Wayne Kedish, Jim Manning, Susan McEachern, Charles Nemec, Emy Neuman-Javornik, Paul J. O'Loughlin, and Vickie Rauser.

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Elected, Appointed and Administrative Officials

Board of Regents of Higher Education

		Term Expires
Marc Racicot, Governor*		
Nancy Keenan, Superintendent of Public Instruction*		
Paul Boylan	Bozeman	1998
L. Colleen Conroy	Hardin	2001
Patrick P. Davison	Billings	2000
Mike Green, Student Regent	Belgrade	1997
Edwin H. Jasmin	Big Fork	2004
Jim Kaze	Havre	1999
Margie Thompson	Butte	2003

*Ex officio members

Commissioner of Higher Education

Richard Crofts	Commissioner of Higher Education (Interim)
Stuart Knapp	Deputy Commissioner for Academic Affairs (Interim)
Rod Sundsted	Associate Commissioner for Fiscal Affairs
Laurie Neils	Director of Budget and Accounting

The University of Montana - Missoula

George Dennison	President
Robert Kindrick	Provost and Vice President for Academic Affairs
James Todd	Vice President for Administration and Finance
Vacant	Vice President for Research and Economic Development
David Aronofsky	Legal Counsel
Barbara Hollmann	Dean of Students
Rosi Keller	Director of Business Services

Elected, Appointed and Administrative Officials

Montana Tech of The University of Montana	Lindsay Norman	Chancellor
	Tom Waring	Vice Chancellor for Academic Affairs
	John Hintz	Vice Chancellor for Administration and Student Services
	John Badovinac	Controller/Business Manager
Western Montana College of The University of Montana	Sheila Stearns	Chancellor
	Karl Ulrich	Dean of Faculty
	Glen Leavitt	Director of Fiscal Affairs
	Lois Cearley	Controller
Helena College of Technology of The University of Montana	Alex Capdeville	Dean
	Chuck Wetterling	Business Manager

The University of Montana
All Campuses

This financial-compliance audit report contains the results of our audit of The University of Montana, all campuses for the two fiscal years ended June 30, 1996. The report contains eight recommendations where The University of Montana could enhance compliance with federal regulations and state law and policies.

The first three recommendations discuss the need to improve controls over student financial aid at The University of Montana - Tech campus. The fourth recommendation discusses the Helena College of Technology's recording of construction and bond activity on the state's accounting records. The fifth recommendation addresses the need for The University of Montana - Western campus to have written contracts or agreements with other organizations. Recommendation six addresses the need for The University of Montana to establish procedures to ensure compliance with the federal Student Right-To-Know and Campus Security Act. The seventh recommendation addresses the need to establish accounting controls over the child day care service on the University of Montana - Western campus. The eighth recommendation addresses the need to improve controls over collections and deposits on the Western and Tech campuses.

We issued an unqualified opinion on the financial statements for The University of Montana - Missoula; Montana Tech of The University of Montana; and Western Montana College of The University of Montana for fiscal years 1994-95 and 1995-96. This means the reader may rely on the presented financial information. We issued a qualified opinion on the financial schedules for the Helena College of Technology of The University of Montana for fiscal year 1995-96. This means the reader should use caution when using the financial information presented.

Report Summary

The listing below serves as a means of summarizing the recommendations contained in the report, the university's response thereto, and a reference to the supporting comments.

Recommendation #1	We recommend The University of Montana revise procedures at U of M - Tech to ensure financial aid federal funds draw downs and disbursements are made no more than ten days before the first day of the semester. 16
	University Response: Concur. See page E-4.
Recommendation #2	We recommend The University of Montana work with the Office of the Commissioner of Higher Education to ensure state matching funds are deposited to the Perkins Loan program at the U of M - Tech campus in accordance with federal regulations. . . 16
	University Response: Concur. See page E-4.
Recommendation #3	We recommend The University of Montana base the U of M - Tech cost of attendance amounts on documented costs of education in compliance with federal regulations. 17
	University Response: Concur. See page E-4.
Recommendation #4	We recommend The University of Montana record construction and bond activity at the Helena College of Technology in accordance with state accounting policy. 18
	University Response: Concur. See page E-5.
Recommendation #5	We recommend The University of Montana establish written contracts or agreements for U of M - Western when other organizations use university property or manage segments of the university's financial activities. 20
	University Response: Concur. See page E-5.
Recommendation #6	We recommend The University of Montana establish procedures to ensure compliance with the federal Student Right-To-Know and Campus Security Act. 21
	University Response: Concur. See page E-5.
Recommendation #7	We recommend The University of Montana establish accounting control over the child day care service at U of M - Western. . . . 21
	University Response: Concur. See page E-5.

Recommendation #8	We recommend The University of Montana establish controls to ensure deposits are made intact and the composition of deposits are monitored at U of M - Western and U of M - Tech. 23
	University Response: Partially concur. See page E-6.

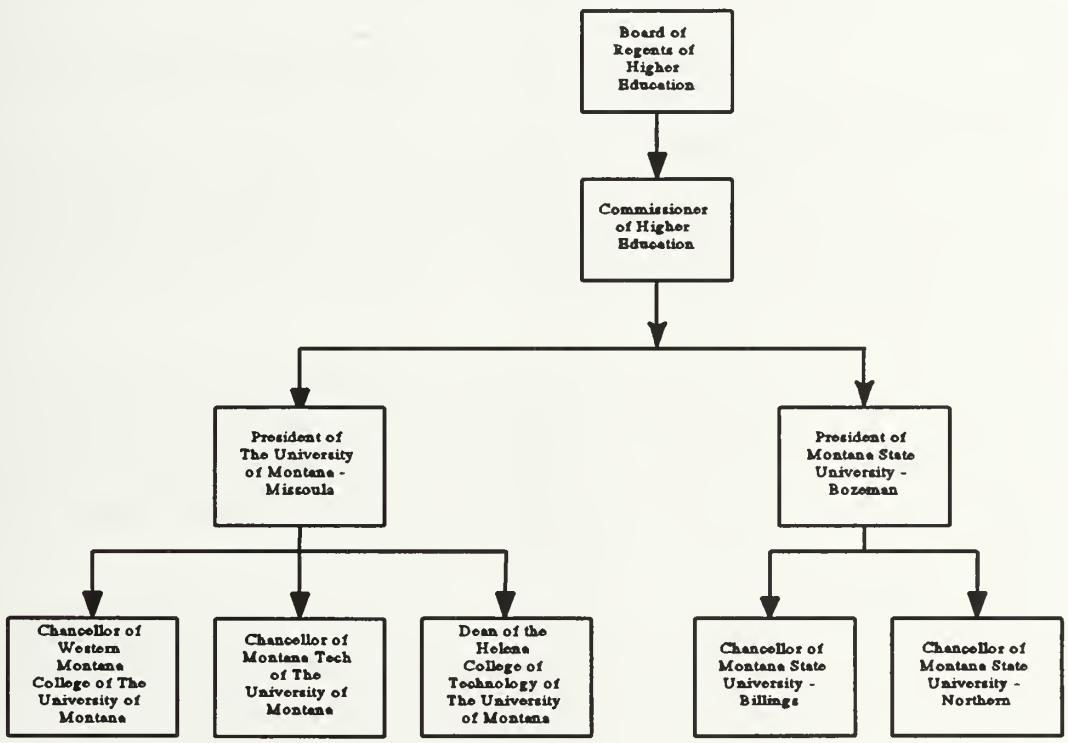
Introduction

Background

The Board of Regents of Higher Education approved the restructuring of the Montana University System in January 1994. The following chart documents the organizational chart for the entire Montana University System during our audit period.

Figure 1

Montana University System Organizational Chart



Source: Compiled by the Legislative Audit Division from university information.

Introduction

The University of Montana now consists of the following four campuses:

- The University of Montana - Missoula, including the College of Technology (formerly known as the Missoula Vocational Technical Center);
- Montana Tech of The University of Montana, including the College of Technology (formerly known as the Butte Vocational Technical Center);
- Western Montana College of The University of Montana; and
- Helena College of Technology of The University of Montana (formerly known as the Helena Vocational Technical Center).

All campuses are accredited by the Commission on Colleges of the Northwest Association of Schools and Colleges. The four campuses of The University of Montana provide a diversity of undergraduate and graduate academic and two-year vocational/technical programs to students.

In fiscal year 1995-96, the four campuses of The University of Montana were authorized 798.60 budgeted full-time equivalent faculty positions. Included in those budgeted faculty positions are not only full-time teaching faculty, but part-time, visiting and state supported research faculty as well.

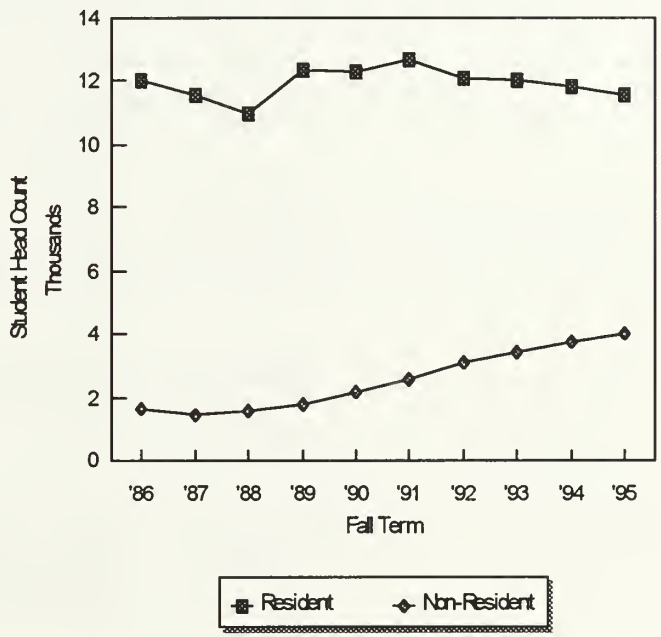
University system Current Funds include general funds, millage, tuition and fees, which are appropriated. Current Funds also include designated, auxiliary and restricted activity which is not appropriated. General fund and millage appropriations to The University of Montana are based upon the anticipated number of resident students and the cost of educating students. The general fund\millage support per resident student is based upon an analysis of faculty salaries in states with similar per capita income, the academic program offerings of the university, the necessary support expenditures (e.g. Academic Support, Student Services, Institutional Support, Plant Operating and Maintenance), and the proportion of the cost of education to be paid by resident students. General Fund and millage appropriations are dedicated to the support of resident

students only. Resident students on a four-year campus are expected to pay 33 percent of the cost of education, while resident students on the two-year campuses are expected to pay 30 percent of the cost of education. Non-resident students are required to pay at least 100 percent of the cost of education, while on the two-year campuses, non-resident students will pay 70 percent of the cost of education in fiscal year 1995-96.

The following table illustrates the head count enrollment trends on a combined basis for the last ten years.

Figure 2

University of Montana - All Campuses
Enrollment Trends



Source: Compiled by the Legislative Audit Division from university information.

Growth in enrollment over the past ten years has been primarily a product of growth in non-resident enrollment. Non-resident students

come from a large number of states, but primary sources of non-resident enrollment are West Coast states, Upper Midwest states and certain East Coast states. The university believes the growth in non-resident enrollment is primarily due to focused marketing efforts; increased publicity about Montana; the availability and quality of programs at the university; and the cost advantages offered by the university in comparison to other universities. The Missoula campus has accounted for virtually all the growth in enrollment over the past ten years. Enrollment at the Western and Tech Campuses has been stable and enrollment at the Helena campus has declined.

The following describes the categories used to record expenditures for The University of Montana campuses:

Instruction - includes expenditures for credit and noncredit courses; academic, vocational, and technical instruction; remedial and tutorial instruction; and regular, special, and extension sessions.

Research - includes all expenditures for activities specifically organized to produce research, whether commissioned by an agency external to the institution or separately budgeted by an organizational unit within the institution.

Public Service - includes funds expended for activities established primarily to provide noninstructional services beneficial to individuals and groups external to the institution.

Academic Support - includes funds expended to provide support services for the institution's primary missions; instruction, research and public service.

Student Services - includes funds expended for the office of admissions, the registrar, and student activities. It includes expenditures for student activities and organization, cultural events, student newspapers, intercollegiate athletics, counseling and career guidance, and student aid administration.

Institutional Support - includes expenditures for central executive-level activities concerned with management and long-range planning for the entire institution.

Operation and Maintenance of Plant - includes all expenditures of current operating funds for the operating and maintenance of the

physical plant, the net amount charged to auxiliary enterprises, and independent operations.

Scholarships and Fellowships - includes expenditures for scholarships and fellowships from restricted or unrestricted current funds in the form of grants to students, resulting from selection by the institution or from an entitlement program.

Auxiliary Enterprises - Exist to furnish goods or services to students, faculty, or staff and charge fees for those goods and services.

Audit Objectives

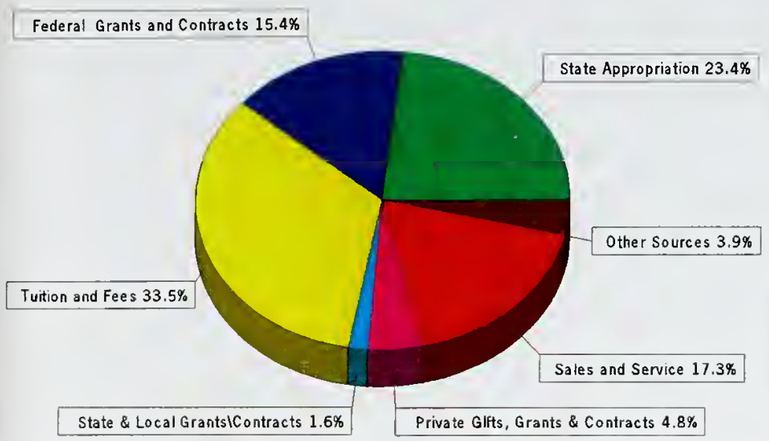
We performed a financial-compliance audit of The University of Montana, all campuses, for the two fiscal years ended June 30, 1996. The objectives of the audit were to:

1. Determine if the university complied with applicable laws and regulations.
2. Make recommendations for improvements in the internal and management controls of the university.
3. Determine the implementation status of prior audit recommendations.
4. Determine if the financial information presents fairly the financial position and results of operations of the university campuses for the two fiscal years ended June 30, 1996.

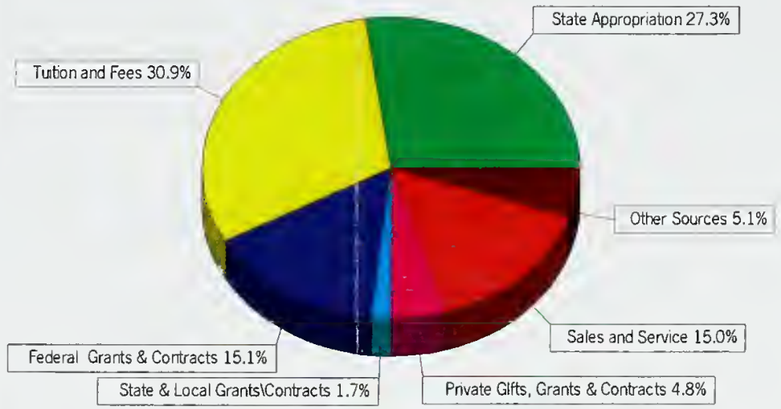
In accordance with section 5-13-307, MCA, we analyzed the costs of implementing the recommendations made in this report. Each report section discloses the cost, if significant, of implementing the recommendation. Other areas of concern deemed not to have a significant effect on the successful operation of university programs are not specifically included in the report, but have been discussed with management.

UNIVERSITY OF MONTANA
CURRENT FUND REVENUE

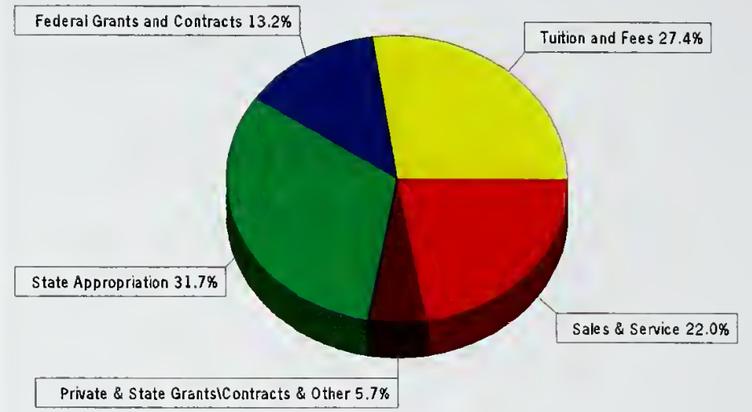
U of M - Missoula
Current Fund Revenue
Fiscal Year 1995-96
$126,730,716



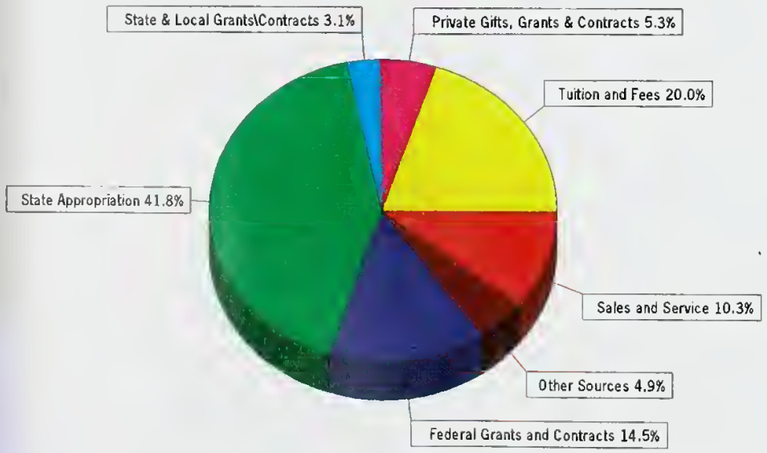
Combined University of Montana
Fiscal Year 1995-96
Current Fund Revenue
$167,422,055



U of M -Western
Current Fund Revenue
Fiscal Year 1995-96
$11,728,649

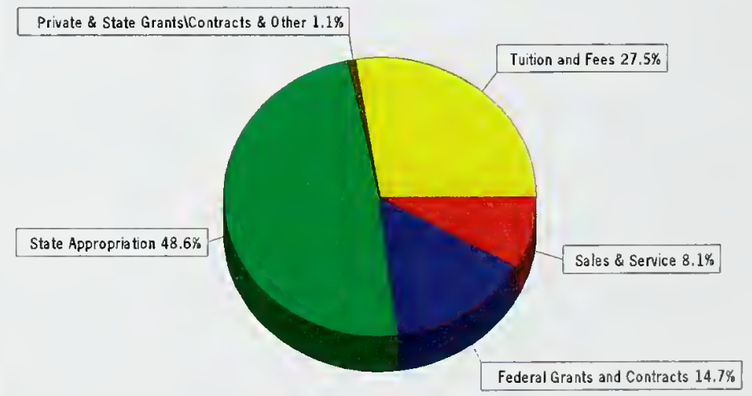


U of M - Tech
Current Fund Revenue
Fiscal Year 1995-96
$25,231,858



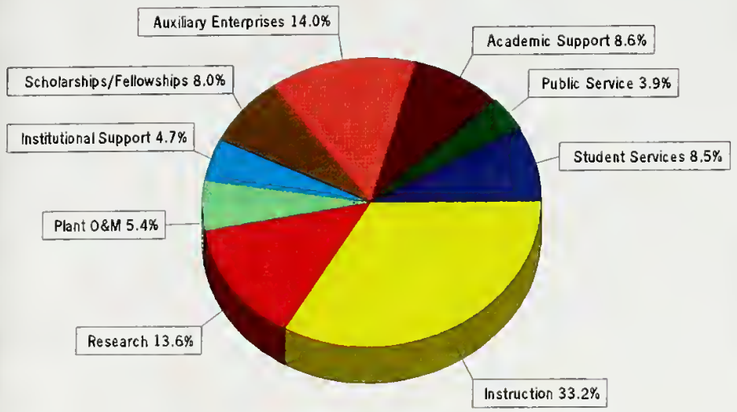
Source: **Compiled by the Legislative Audit Division from university financial information.**

U of M - Helena
Current Fund Revenue
Fiscal Year 1995-96
$3,730,832

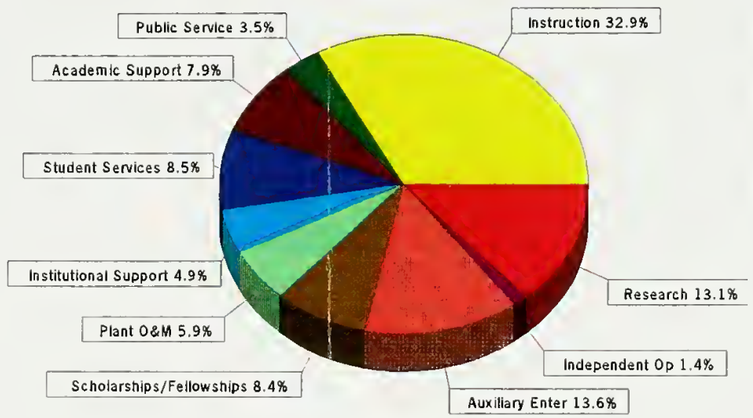


UNIVERSITY OF MONTANA
CURRENT FUND EXPENDITURES

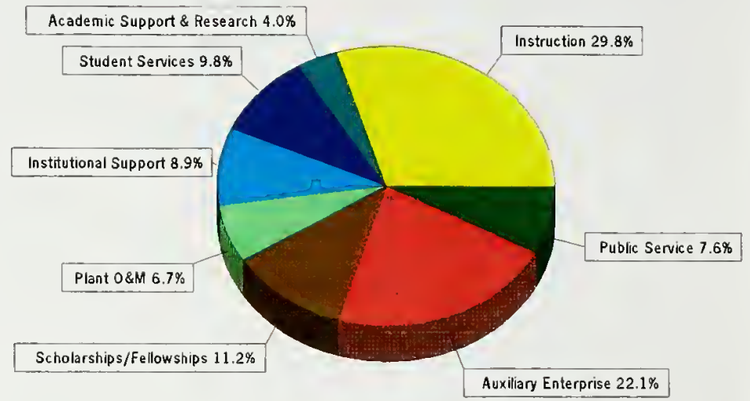
U of M - Missoula
Current Fund Expenditures
Fiscal Year 1995-96
$122,872,961



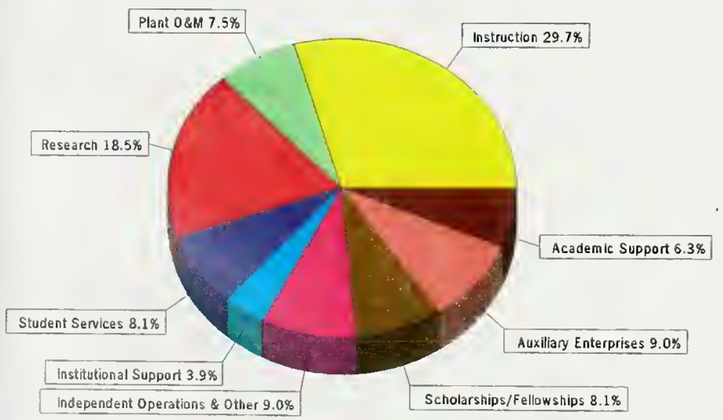
Combined University of Montana
Fiscal Year 1995-96
Current Fund Expenditures
$163,926,008



U of M - Western
Current Fund Expenditures
Fiscal Year 1995-96
$12,043,712

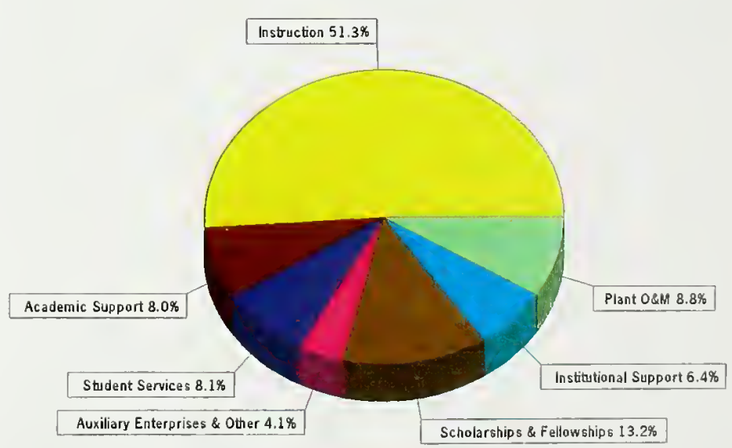


U of M - Tech
Current Fund Expenditures
Fiscal Year 1995-96
$25,313,309



Source: **Compiled by the Legislative Audit Division from university financial information.**

U of M - Helena
Current Fund Expenditures
Fiscal Year 1995-96
$3,696,026



The University of Montana - Missoula

The Missoula campus, established in 1893 as The University of Montana, is a comprehensive university. The university offers both four year undergraduate programs along with masters and doctoral graduate programs, including professional schools and significant research activities. The campus is the center of liberal arts education in the Montana University System and maintains the only law school in the system. Other schools include business administration, education, fine arts, forestry, pharmacy and allied health services, and journalism. In addition, the university includes a two year college of technology which provides a broad range of technical and occupational education and training courses.

The following schedule shows the U of M - Missoula student full time equivalent (FTE) for fiscal year 1994-95 and fiscal year 1995-96.

Table 1

U of M - Missoula
Schedule of Student FTE Funded with Unrestricted Funds

Session	Year	Undergraduate FTE Reported[1]	Graduate FTE Reported[2]	Total FTE
Summer	1994	567	161	728
Fall	1994	9,266	899	10,165
Spring	1995	8,794	965	9,759
Annual[3]	1994-95	9,314	1,013	10,327
Summer	1995	530	138	668
Fall	1995	9,415	920	10,335
Spring	1996	9,090	932	10,022
Annual[3]	1995-96	9,518	995	10,513

1 Undergraduate semester credit hours divided by 15.
2 Graduate semester credit hours divided by 12.
3 In accordance with CHE policy annual FTE is calculated by total undergraduate credit hours divided by 30 and total graduate credit hours divided by 24.

Source: Compiled by the Legislative Audit Division from university information.

Montana Tech of The University of Montana

Montana Tech of The University of Montana was established in 1893 as the Montana School of Mines. It provides a variety of four year and graduate programs with a focus on mineral, geological, environmental, petroleum, mining, and other engineering and science programs and majors. It also includes a college of technology which provides two year degrees in various occupational and technical programs and core education courses.

The following table shows the U of M - Tech student full time equivalent (FTE) for fiscal year 1994-95 and fiscal year 1995-96.

Table 2

U of M - Tech
Schedule of Student FTE Funded with Unrestricted Funds

Session	Year	Undergraduate FTE Reported[1]	Graduate FTE Reported[2]	Total FTE
Summer	1994	117	6	123
Fall	1994	1,877	70	1,947
Spring	1995	1,809	81	1,890
Annual[3]	1994-95	1,902	79	1,981
Summer	1995	160	11	171
Fall	1995	1,870	67	1,937
Spring	1996	1,829	78	1,907
Annual[3]	1995-96	1,930	78	2,008

1 Undergraduate semester credit hours divided by 15.
2 Graduate semester credit hours divided by 12.
3 In accordance with CHE policy annual FTE is calculated by total undergraduate credit hours divided by 30 and total graduate credit hours divided by 24.

Source: Compiled by the Legislative Audit Division from university information.

Western Montana College of The University of Montana

Western Montana College of The University of Montana was established in 1893 as the state's Normal School for Teacher Education. It provides both two year and four year undergraduate degree programs with a focus on elementary and secondary education. It also provides a four-year liberal arts degree with several emphases that complement the education programs.

The following schedule shows the U of M - Western student full time equivalent (FTE) for fiscal year 1994-95 and fiscal year 1995-96.

Table 3

U of M - Western
Schedule of Student FTE Funded with Unrestricted Funds

Session	Year	Undergraduate FTE Reported[1]
Summer	1994	133
Fall	1994	1,016
Spring	1995	981
Annual[2]	1994-95	1,065
Summer	1995	126
Fall	1995	1,058
Spring	1996	980
Annual[2]	1995-96	1,081

[1] Undergraduate semester credit hours divided by 15.
[2] In accordance with CHE policy annual FTE is calculated by total undergraduate credit hours divided by 30.

Source: Compiled by the Legislative Audit Division from university information.

Helena College of Technology of The University of Montana

The Helena College of Technology of The University of Montana was established in 1939 as a Vocational-Technical School. The College of Technology provides two year degree programs in core education courses that are transferable to most four year institutions, in addition to a variety of other occupational, technical, and training specialties. These areas include accounting technology, carpentry, computer technology, practical nursing, electronics technology, and welding technology. The college is also expanding its offerings and will serve as a higher education center by providing graduate level study in cooperation with The University of Montana and Montana State University.

The following schedule shows the U of M - Helena student full time equivalent (FTE) for fiscal year 1995-96.

Table 4

U of M - Helena
Schedule of Student FTE Funded
with Unrestricted Funds

Session	Year	Undergraduate FTE Reported[1]
Summer	1995	25
Fall	1995	452
Spring	1996	458
Annual[2]	1995-96	467

[1] Undergraduate semester credit hours divided by 15.
[2] In accordance with CHE policy annual FTE is calculated by total undergraduate credit hours divided by 30.

Source: Compiled by the Legislative Audit Division from university information.

Prior Audit Recommendations

U of M - Missoula Prior Audit Recommendations

In our prior audit of the University of Montana - Missoula for the fiscal year ended June 30, 1994, we reviewed and reported on six of the recommendations made in our prior audit for the two years ended June 30, 1993. Of the ten recommendations remaining from the report for the two years ended June 30, 1993, we found the university implemented eight, partially implemented one, and one is no longer applicable to U of M - Missoula.

The recommendation partially implemented relates to monitoring subrecipients of federal funds. The Single Audit Act of 1984 and the Office of Management and Budget (OMB) Circular A-128 require agencies receiving more than $25,000 of federal assistance annually to have an audit performed to ensure compliance with federal regulations. The university is required to review the audit reports of its subrecipients to ensure they comply with federal regulations. During our prior audits, the university did not have a system to ensure these audit reports were monitored. The Federal Single Audit Act of 1996 raised the annual audit requirement threshold for subrecipients receiving federal assistance from $25,000 to $300,000. This change reduces the number of subrecipients required to have an annual audit and the number of audit reports the university should be monitoring. Since the number of audit reports the university is required to monitor has decreased, we make no further recommendation at this time.

U of M - Tech Prior Audit Recommendations

Our office performed the financial-compliance audit of Montana Tech of The University of Montana for the two fiscal years ended June 30, 1994. The report contained four recommendations. Our office also performed the financial-compliance audit of Montana Tech's College of Technology for the two fiscal years ended June 30, 1995. This report contained one recommendation. U of M - Tech implemented four of the five prior audit recommendations. The status of the fifth recommendation is unclear.

This recommendation relates to the applicability of state purchasing laws to U of M - Tech's food service contract. U of M - Tech negotiated a revised lease and food service agreement with its food service provider. We have reviewed this contract which is the

subject of significant discussion concerning its status as a lease or a service agreement. We will review the final resolution of this issue in our next audit of U of M - Tech.

U of M - Western Prior Audit Recommendations

In our prior audit of the Western Montana College of The University of Montana for the two fiscal years ended June 30, 1994, we had one recommendation which the college implemented.

U of M - Helena Prior Audit Recommendations

In our prior audit of the Helena College of Technology of The University of Montana for the two fiscal years ended June 30, 1995, we had two recommendations which the college implemented.

AUDIT ISSUES

Financial Aid

The U of M - Tech campus receives federal funds for the following student financial aid programs: Pell Grants (CFDA #84.063); Perkins Loans (CFDA # 84.038); College Work Study (CFDA #84.033); Supplemental Educational Opportunity Grants (CFDA #84.007); and State Student Incentive Grants (CFDA #84.069). U of M - Tech's students may also qualify for Federal Family Education Loans (CFDA #84.032). During our audit of U of M - Tech's student financial aid programs, we identified issues related to the timing of federal cash draw downs for Pell Grants, the timing of U of M - Tech's contributions for the Perkins Loans program, and calculating the cost of attendance used as a basis for awarding aid from the various financial aid programs to students. These issues are discussed below.

Early Federal Pell Grant Cash Requests

To minimize interest costs to the federal government, federal regulations require schools to credit aid to a student's account no more than ten days before the first day of a semester if the credit is made with federal funds. U of M - Tech obtained $266,000 in federal Pell funds on December 27, 1995, for the semester starting January 9, 1996. U of M - Tech credited student accounts for all financial aid programs, including Pell, on December 28, 1995. It should not have drawn down federal funds to credit student accounts before December 30, 1995.

Business Office personnel were aware there were federal requirements related to the timing of federal draw downs and crediting student accounts, but thought the limit was 13 days and based their procedures on that limit. According to financial aid regulations available in the Financial Aid Office, the 10 day limit was effective beginning with the 1995-96 award year. U of M - Tech should establish procedures to ensure the Business Office is notified of changes in federal regulations related to financial aid disbursements.

Recommendation #1

We recommend The University of Montana revise procedures at U of M - Tech to ensure financial aid federal funds draw downs and disbursements are made no more than ten days before the first day of the semester.

Untimely State Match Funds

Federal regulations require an institution to deposit its state matching funds into its Perkins Loan fund prior to or at the same time it deposits any federal contribution. U of M - Tech obtained federal funds up to 23 days before making the related state matching funds contributions during the audit period.

U of M - Tech personnel were not aware there was a timing requirement related to matching contributions for the Perkins Loans program. They obtain the state matching funds from the Office of the Commissioner of Higher Education (CHE). Personnel indicated they would have to coordinate with CHE to deposit the matching contribution more quickly, request the federal capital contribution later, or both.

Recommendation #2

We recommend The University of Montana work with the Office of the Commissioner of Higher Education to ensure state matching funds are deposited to the Perkins Loan program at the U of M - Tech campus in accordance with federal regulations.

Cost of Attendance

U of M - Tech's financial aid office develops cost of attendance amounts to estimate a student's educational expenses for the academic year based on the student's enrollment and personal status. The cost of attendance includes tuition and fees, loan fees, room and board, books and supplies, transportation, and personal expenses.

Each student's expected family contribution (income and assets of student and parents), scholarships, and other known resources are subtracted from the applicable cost of attendance to determine the student's financial need. Except for Pell Grants, financial aid is awarded based on each student's financial need and the award cannot exceed financial need.

To ensure financial aid is awarded to students in compliance with federal regulations, it is important for cost of attendance amounts to be based on appropriately estimated costs.

We found the cost of attendance amounts at U of M - Tech related to tuition and fees and loan origination fees were reasonable. However, the living expenses (room and board, transportation, and miscellaneous personal expenses) and books and materials amounts for the 1995-96 academic year for full-time undergraduate resident students were not supported. The financial aid director has little formal documentation supporting how he determined these cost of education amounts, and has generally arrived at the amounts by increasing the prior year's cost of education for an estimated inflationary factor.

Recommendation #3

We recommend The University of Montana base the U of M - Tech cost of attendance amounts on documented costs of education in compliance with federal regulations.

Bond Activity

The Board of Regents issued two Facility Improvement Bonds. The Helena College of Technology of The University of Montana (college), used its portion of bond proceeds to construct the college's student union facilities. We noted errors in the transactions recorded by the college to account for the financing and construction of these facilities.

State accounting policy identifies specific accounting entries related to bonds and construction that must be made on the state's

accounting records. When the bond is issued, the bonds payable should be recorded in the Unexpended Plant Fund. As construction occurs, expenditures should be recorded in the Unexpended Plant Fund. As the project progresses, the costs should be capitalized by reducing nonbudgeted expenses and recording construction work in progress in the Unexpended Plant Fund. When the project is complete, or facilities are occupied, the college should reduce construction work in progress in the Unexpended Plant Fund, and record an asset in the Net Investment in Plant Fund. As this occurs, the bonds payable should also be moved to the Net Investment in Plant Fund.

The college recorded the building in the Net Investment in Plant Fund, but did not record the proper entries in the Unexpended Plant Fund. In addition, when the college liquidated investments with the bond trustee to pay for construction, personnel reduced the Short Term Investment Pool (STIP) account rather than investments with trustee. As a result, the Unexpended Plant Fund had a negative fund balance of $550,662 and a negative STIP balance of $574,247 at fiscal year-end 1995-96. Fund balance was understated by $663,821 and nonbudgeted expenditures were overstated by the same amount. We qualified the Independent Auditor's Report on the financial schedules of the college for these misstatements (see page D-3).

The entries set forth in state policy cover bond financing and construction activities like those of the college. By following policy guidance, the college can properly account for future debt financed construction. College personnel could also seek guidance from other university accounting personnel with experience in handling these transactions.

Recommendation #4

We recommend The University of Montana record construction and bond activity at the Helena College of Technology in accordance with state accounting policy.

Lack of Written Contracts

U of M - Western has several unwritten contracts or agreements with organizations such as the Western Montana College (WMC) Foundation, Beaverhead County High School, and a privately operated business on campus. State policy requires a written contract be prepared which defines the rights, responsibilities, and obligations of each of the contracting parties. The following paragraphs describe the unwritten contracts or agreements noted during the audit.

-- U of M - Western has an agreement with the WMC Foundation under which the foundation administers several grants on behalf of the college. The university expends funds under grant requirements and then is reimbursed from the foundation for its costs. We were unable to determine the responsibilities of the foundation for administering these grants because no contract existed outlining either party's responsibilities. In the absence of a written agreement the state could be held liable for possible foundation errors or misused grant funds.

-- U of M - Western home football games are held in the Vigilante Field which is located near the Beaverhead County High School. This facility is owned by the university and shared with the high school. The university does not receive payment from the high school for use of the facility. However, the high school performs some of the field maintenance and repair work for the university. A written agreement does not exist regarding the type or amount of work to be performed by the high school or defining who has the responsibility for liabilities such as personal injuries and property damage.

-- U of M - Western operates the Birch Creek Camp and the Bender Center in the East Pioneer Mountains. The camp is used for environmental education for teachers through workshops and curriculum development. The land and most of the buildings at the camp are leased to the WMC Foundation by the US Forest Service on a twenty year lease expiring in the year 2003. The terms of the lease include a requirement for the university to carry insurance for property damage and bodily injury. The university carries the required liability coverage even though the land is leased to the foundation. Currently, there is no written agreement between the university and the foundation. The university should establish a written agreement with the foundation outlining its rights to use the Birch Creek Camp and the Bender Center in return for purchasing liability insurance.

-- A local business operates a coffee shop located on the university campus. The coffee shop opened in the spring of 1996. The business rents the space from the university and pays a portion of utilities. There is no written agreement between the university and the coffee shop outlining rental fees, insurance requirements, or theft and safety provisions.

The university should establish written contracts or agreements to ensure the university's rights are protected and to protect the state from possible liability for repairs, injuries, and thefts that may occur on university property.

Recommendation #5

We recommend The University of Montana establish written contracts or agreements for U of M - Western campus when other organizations use university property or manage segments of the university's financial activities.

Compliance with the Student Right-To-Know and Campus Security Act

Not all of the university campuses have established a system ensuring crimes occurring on campuses are reported in accordance with the federal Student Right-To-Know and Campus Security Act of 1990. A purpose of the Student Right-To-Know and Campus Security Act of 1990 is to provide students, prospective students, and parents of students access to information about an institutions crime statistics and security policies and procedures.

Based on documentation provided to us by the university's internal audit office and interviews with campus officials we determined not all reported alleged crimes occurring on campuses were included in published crime statistics as required by the federal law. The university's internal audit office reviewed policies on each of the campuses and reported campuses have not always established the appropriate policies to ensure compliance with the federal law.

Recommendation #6

We recommend The University of Montana establish procedures to ensure compliance with the federal Student Right-To-Know and Campus Security Act.

Cash Collection Controls

The U of M - Western campus should establish accounting control over payments received by its child day care service. State policy requires state agencies to maintain appropriate control over cash collection activities. During our review of the collection process at the day care, the university could not provide records showing the total number of children cared for and the types of services provided for each child or records of the amounts of money owed by parents to the day care service. Also, one employee is responsible for the day care service financial records including preparing bills, receiving payments, and depositing the money. With one employee responsible for the financial activities, and with no records showing the total number and type of services provided, the university cannot determine whether all moneys received by the day care were deposited in the university business office. According to records at the business office, in September and October 1996, total day care revenues were $1,517 in cash and, $11,876 in checks and payroll deductions. The university reported day care revenues of $51,258 and $51,515 in fiscal years 1994-95 and 1995-96, respectively.

Recommendation #7

We recommend The University of Montana establish accounting control over the child day care service at U of M - Western.

Improving Controls Over Collections

We reviewed several cash collection points on The University of Montana campuses and found areas where controls and accountability for revenue collections could be improved. The following paragraphs discuss our concerns:

-- The bookstore and the cafeteria on the U of M - Western campus use cash registers to track daily sales. These cash registers have the capability to track cash or check sales but this capability is not used. Cafeteria employees do not always ring up cash sales immediately after cash is received. Some students wait until the end of their shift to ring sales into the cash register. It is important to track the composition of collections in addition to the total amount of collections in order to determine if all receipts are recorded. If the employees used the cash registers to record cash and checks the university could use the information to track the composition of deposits. We believe the cost to the campus of using the cash register to track cash and checks would be minimal.

-- The bookstore on the U of M - Tech campus uses a cash register to track receipts as cash, checks, or credit card. The composition of the deposits made by the bookstore do not agree with the amounts recorded in the cash register because checks are cashed at the business office before deposits are made. A bookstore employee said they run out of change during the day so they take checks to the business office and exchange them for cash. It is an important control to review the make up of deposits to ensure the proper ratio of cash and checks are received. By not depositing intact there is potential for misappropriation of funds by substituting checks for cash amounts.

State accounting policy requires the university to set up internal controls over collections. The U of M - Western management should instruct its student employees to ring up cash sales immediately when cash is received. U of M - Tech management should request its employees document the amount of checks cashed each day to help reconcile the cash register data to the deposit.

Recommendation #8

We recommend The University of Montana establish controls to ensure deposits are made intact and the composition of deposits are monitored at U of M - Western and U of M - Tech.

FINANCIAL SECTION

U of M -- Missoula

Independent Auditor's Report & University of Montana - Missoula Financial Statements

LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
John W. Northey, Legal Counsel
Tori Hunthausen, IT & Operations Manager

Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
James Gillett, Financial-Compliance Audit

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Balance Sheet of The University of Montana - Missoula, a component unit of the state of Montana, as of June 30, 1996 and the related Statements of Changes in Fund Balances and the Statements of Current Funds Revenues, Expenditures and Other Changes for each of the two fiscal years ended June 30, 1996. The information contained in these financial statements is the responsibility of the university's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The University of Montana - Missoula as of June 30, 1996 and the changes in fund balances and the current funds revenues, expenditures, and other changes for each of the two fiscal years then ended in conformity with generally accepted accounting principles.

Respectfully submitted,

James Gillett, CPA
Deputy Legislative Auditor

October 31, 1996

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THE UNIVERSITY OF MONTANA – MISSOULA
BALANCE SHEET
June 30, 1996

	Current Funds			
	Unrestricted			
	General Operating	Designated	Auxiliary Enterprises	Restricted
ASSETS				
Cash and Cash Equivalents	$ 5,101,938	$ 5,086,557	$ 3,611,339	$ 163,47
Investments				
Accounts Receivable, Net of Allowance	339,786	300,406	223,950	5,816,39
Interest Receivable				
Inventories	7,688	543,720	345,521	
Prepaid Expenses and Deferred Charges	1,095,927	524,886	14,883	163,73
Due from Other Fund Groups	3,107,939	958,276	146,004	79,97
Interfund Loans Receivable		2,065,246		
Loans Receivable, Net of Allowance				
Property, Equipment, & Other Assets				
TOTAL ASSETS	$ 9,653,278	$ 9,479,091	$ 4,341,697	$ 6,223,581
LIABILITIES AND FUND BALANCE				
Accounts Payable and Accrued Liabilities	$ 6,787,009	$ 1,505,959	$ 311,991	$ 386,27
Accrued Interest Payable				
Students' Deposits	28,000		260,321	
Deposits Held in Custody for Others		57,994		155,81
Due to Other Fund Groups	960,312	1,309,929	662,116	1,623,12
Deferred Revenue	1,801,432	984,002	329,220	
Current Notes Payable				
Long Term Obligations				
Interfund Loans Payable			16,000	1,800,00
Bonds Payable, Net of Discount				
Compensated Leave	6,376,341	1,296,709	740,512	
TOTAL LIABILITIES	$ 15,953,094	$ 5,154,593	$ 2,320,160	$ 3,965,20
Fund Balances	(6,299,816)	4,324,498	2,021,537	2,258,375
TOTAL LIABILITIES AND FUND BALANCE	$ 9,653,278	$ 9,479,091	$ 4,341,697	$ 6,223,581
Fund Balances Consist of:				
Unrestricted –				
General	$ (6,299,816)	$ 4,324,498	$ 2,021,537	
Unexpended				
Renewal and Replacement				
Retirement of Indebtedness				
Restricted –				
U.S. Government Grants Refundable				
General				2,258,375
Net Investment in Plant				
TOTAL FUND BALANCES	$ (6,299,816)	$ 4,324,498	$ 2,021,537	$ 2,258,375

See Summary of Significant Accounting Policies and Notes to Financial Statements.

Student Loan Funds	Endowment Funds	Plant Funds	Agency Funds	Total
$ 1,090,922	$ 615,141	$ 39,878,630	$ 453,738	$ 56,001,740
	2,539,362			2,539,362
9,359		92,956	4,228	6,787,081
	11,117	210,182		221,299
				896,929
		1,564,722		3,364,151
6,434		757,006	6,531	5,062,167
		16,000		2,081,246
6,667,893		516,187		7,184,080
		218,310,303		218,310,303
$ 7,774,608	**$ 3,165,620**	**$ 261,345,986**	**464,497**	**$ 302,448,358**
$ 3,490	$	$ 2,057,245	$ 45,407	$ 11,097,371
		454,299		454,299
				288,321
			337,128	550,935
134,231	37,995	252,499	81,962	5,062,167
		117,043		3,231,697
		19,263		19,263
		1,705,297		1,705,297
		265,246		2,081,246
		73,245,135		73,245,135
				8,413,562
$ 137,721	**$ 37,995**	**$ 78,116,027**	**464,497**	**$ 106,149,293**
7,636,887	3,127,625	183,229,959		196,299,065
$ 7,774,608	**$ 3,165,620**	**$ 261,345,986**	**464,497**	**$ 302,448,358**
$ 1,535,682	$ 914,109	$	$	$ 2,496,010
		5,761,809		5,761,809
		7,949,951		7,949,951
		2,344,284		2,344,284
6,101,205				6,101,205
	2,213,516	10,713,892		15,185,783
		156,460,023		156,460,023
$ 7,636,887	**$ 3,127,625**	**$ 183,229,959**	**$**	**$ 196,299,065**

The University of Montana – Missoula

STATEMENT OF CHANGES IN FUND BALANCE

Year Ended June 30, 1996

	Current Funds			
	Unrestricted			
	General Operating	Designated	Auxiliary Enterprises	Restricted
REVENUES AND OTHER ADDITIONS				
Unrestricted Current Fund	$ 63,598,954	$ 14,667,443	$ 20,570,894	$
Private Gifts, Grants and Contracts				6,348,81
Government Grants and Contracts				23,399,73
Federal Contributions				
Land Grant Income				
Interest and Recovery on Loans				
Student Fees				
Investment Income				233,76
Retirement of Indebtedness				
Additions to Plant				
Other				126,30
TOTAL REVENUES AND OTHER ADDITIONS	$ 63,598,954	$ 14,667,443	$ 20,570,894	$ 30,108,62
EXPENDITURES AND OTHER DEDUCTIONS				
Current Funds Expenditures	$ 63,508,822	$ 14,387,516	$ 17,083,198	$ 27,893,42
Indirect Cost Recovered				2,268,24
Loan Cancellations, Collection Costs and Bad Debt Expense				
Expended for Plant Facilities				
Retirement of Indebtedness				
Interest on Indebtedness				
Other Expenditures				
Deletions from Plant				
TOTAL EXPENDITURES AND OTHER DEDUCTIONS	$ 63,508,822	$ 14,387,516	$ 17,083,198	$ 30,161,67
TRANSFERS AMONG FUNDS – ADDITIONS(DEDUCTIONS)				
Mandatory:				
Principal and Interest	$	$ (212,066)	$ (1,498,775)	$
Renewals and Replacements			(215,825)	
Other			(1,744,487)	(68
Non–Mandatory	(594,953)	(725,552)	(11,500)	(6,01
Transfer of Land and Buildings				
Net Investment in Plant				
TOTAL TRANSFERS – ADDITIONS(DEDUCTIONS)	$ (594,953)	$ (937,618)	$ (3,470,587)	$ (6,70
NET INCREASE(DECREASE) FOR THE YEAR	$ (504,821)	$ (657,691)	$ 17,109	$ (59,75
Fund Balance – Beginning of Year	$ (5,295,572)	$ 4,936,733	$ 1,853,649	$ 2,368,58
Prior Year Adjustments	(71,459)	(25,583)	(10,504)	(64,05
College of Technology Merger	(427,964)	71,039	161,283	13,59
FUND BALANCE – BEGINNING OF YEAR RESTATED	$ (5,794,995)	$ 4,982,189	$ 2,004,428	$ 2,318,13
FUND BALANCE AT END OF YEAR	$ (6,299,816)	$ 4,324,498	$ 2,021,537	$ 2,258,37

			Plant Funds			
	Student Loans	Endowment Funds	Unexpended	Renewal & Replacement	Retirement of Indebtedness	Investment In Plant
$	$	$	$	$	$	
	7,500		3,013,539	293,032		
	287,267					
			196,180			
	201,496					
			386,779	604,553	1,027,048	
	31,001	33,743	1,537,684	167,049	285,780	
						2,798,969
						13,621,216
	89,574	841,556	79,298	334,933		
$	616,838 $	875,299 $	5,213,480 $	1,399,567 $	1,312,828 $	16,420,185
$	$	$	$	$	$	
	238,630					
			1,881,006	2,854,491		
					1,690,000	1,315,711
					3,149,161	
			992,611		131,208	
						2,483,947
$	238,630 $	$	2,873,617 $	2,854,491 $	4,970,369 $	3,799,658
$	$	$	(1,649,993)$	(241,922)$	3,602,756 $	
			(180,287)	180,287	215,825	
			(1,462)	(3,312)	1,749,949	
	(8,187)	(519,374)	835,854	4,393,423	(3,363,697)	
		(142,067)				142,067
			1,305,012	(498,230)		(806,782)
$	(8,187)$	(661,441)$	309,124 $	3,830,246 $	2,204,833 $	(664,715)
$	370,021 $	213,858 $	2,648,987 $	2,375,322 $	(1,452,708)$	11,955,812
$	7,258,955 $	2,843,616 $	13,407,473 $	5,850,601 $	3,796,992 $	138,224,015
			(80,759)	13,195		
	7,911	70,151		210,833		6,280,196
$	7,266,866 $	2,913,767 $	13,326,714 $	6,074,629 $	3,796,992 $	144,504,211
$	7,636,887 $	3,127,625 $	15,975,701 $	8,449,951 $	2,344,284 $	156,460,023

University of Montana – Missoula

STATEMENT OF CHANGES IN FUND BALANCE

Year Ended June 30, 1995

	Current Funds			
	Unrestricted			
	General Operating	Designated	Auxiliary Enterprises	Restricted
REVENUES AND OTHER ADDITIONS				
Unrestricted Current Fund	$ 57,082,007	$ 12,500,667	$ 19,585,834	$
Private Gifts, Grants and Contracts				5,194,92
Government Grants and Contracts				23,036,76
Federal Contributions				
Land Grant Income				
Interest and Recovery on Loans				
Student Fees				
Investment Income				147,52
Retirement of Indebtedness				
Additions to Plant				
Other				796,93
TOTAL REVENUES AND OTHER ADDITIONS	57,082,007	12,500,667	19,585,834	29,175,83
EXPENDITURES AND OTHER DEDUCTIONS				
Current Funds Expenditures	56,806,018	11,224,814	16,056,780	25,758,45
Indirect Cost Recovered				1,862,32
Loan Cancellations, Collection Costs and Bad Debt Expense				
Expended for Plant Facilities				
Retirement of Indebtedness				
Interest on Indebtedness				
Other Expenditures				
Deletions from Plant				
TOTAL EXPENDITURES AND OTHER DEDUCTIONS	56,806,018	11,224,814	16,056,780	27,620,77
TRANSFERS AMONG FUNDS – ADDITIONS(DEDUCTIONS)				
Mandatory:				
Principal and Interest		(225,711)	(931,406)	
Renewals and Replacements			(72,289)	
Other			(2,259,516)	
Non–Mandatory	(295,318)	(506,376)	(57,545)	(956,77)
Net Investment in Plant				
TOTAL TRANSFERS – ADDITIONS(DEDUCTIONS)	(295,318)	(732,087)	(3,320,756)	(956,77)
NET INCREASE(DECREASE) FOR THE YEAR	(19,329)	543,766	208,298	598,30
Fund Balance – Beginning of Year	(5,145,311)	4,407,991	1,651,236	1,879,50
Prior Year Adjustments	(130,932)	(15,024)	(5,885)	(109,23
FUND BALANCE – BEGINNING OF YEAR RESTATED	(5,276,243)	4,392,967	1,645,351	1,770,27
FUND BALANCE AT END OF YEAR	$ (5,295,572)	$ 4,936,733	$ 1,853,649	$ 2,368,58

See Summary of Significant Accounting Policies and Notes to Financial Statements

		Plant Funds			
Student Loans	Endowment Funds	Unexpended	Renewal & Replacement	Retirement of Indebtedness	Investment In Plant
$	$	$	$	$	$
77,258		203,169	85,210		
			5,079		
280,688					
		179,754			
196,096					
		401,204	617,224	1,046,371	
25,634	98,476	1,566,823	184,559	206,641	
					2,229,670
					16,611,385
63,923		749,672	326,531		
643,599	98,476	3,100,622	1,218,603	1,253,012	18,841,055
222,080					
		1,696,309	2,818,765		
				1,136,132	1,618,719
				2,209,071	
				139,829	
					2,499,014
222,080		1,696,309	2,818,765	3,485,032	4,117,733
		(1,617,643)		2,774,760	
		(347,000)	347,000	72,289	
		(193)		2,259,709	
11,031	948,453	954,186	2,574,265	(2,671,924)	
		1,330,864	(394,071)		(936,793)
11,031	948,453	320,214	2,527,194	2,434,834	(936,793)
432,550	1,046,929	1,724,527	927,032	202,814	13,786,529
6,824,815	1,796,687	11,733,903	5,033,446	3,594,178	124,437,486
1,590		(50,957)	(109,877)		
6,826,405	1,796,687	11,682,946	4,923,569	3,594,178	124,437,486
$ 7,258,955	$ 2,843,616	$ 13,407,473	$ 5,850,601	$ 3,796,992	$ 138,224,015

University of Montana – Missoula

STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES AND OTHER CHANGES

Year Ended June 30, 1995

	Unrestricted		
	General Operating	Designated	Auxiliary Enterprises
REVENUES			
Tuition and Fees	$ 27,453,693	$ 4,246,749	$ 3,703,28
State Appropriation	29,264,732		
Federal Grants and Contracts			
State and Local Grants/Contracts			
Private Gifts, Grants and Contracts			
Investment Income		35,074	313,32
Sales and Service		4,409,420	15,504,75
Indirect Cost Recoveries		1,862,312	
Other Sources	363,582	1,947,112	64,46
TOTAL CURRENT REVENUES	57,082,007	12,500,667	19,585,83
EXPENDITURES AND MANDATORY TRANSFERS			
Educational and General:			
Instruction	30,272,139	2,296,152	
Research	1,550,900	1,866,880	
Public Service	362,832	895,608	
Academic Support	7,198,776	582,517	
Student Services	4,149,858	4,760,138	
Institutional Support	5,354,361	471,542	
Operations and Maintenance of Plant	5,741,684	52,578	
Scholarships and Fellowships	2,175,468	290,998	
EDUCATIONAL AND GENERAL EXPENDITURES	56,806,018	11,216,413	
Auxiliary Enterprises Expenditures		8,401	16,056,78
TOTAL EXPENDITURES	56,806,018	11,224,814	16,056,78
MANDATORY TRANSFERS			
Principal and Interest		225,711	931,40
Renewals and Replacements			72,28
Other			2,259,51
TOTAL MANDATORY TRANSFERS		225,711	3,263,21
TOTAL EXPENDITURES, ADJUSTMENTS AND MANDATORY TRANSFERS	56,806,018	11,450,525	19,319,99
OTHER TRANSFERS – ADDITIONS(DEDUCTIONS)			
Restricted Receipts Over (Under) Transfers to Revenue			
Non–Mandatory Transfers	(295,318)	(506,376)	(57,54
TOTAL OTHER TRANSFERS –ADDITIONS(DEDUCTIONS)	(295,318)	(506,376)	(57,54
NET INCREASE (DECREASE) IN FUND BALANCE	$ (19,329)	$ 543,766	$ 208,29

See Summary of Significant Accounting Policies and Notes to Financial Statements.

Restricted	Total
	$ 35,403,728
	29,264,732
18,993,719	18,993,719
1,654,027	1,654,027
4,166,169	4,166,169
147,582	495,982
	19,914,176
	1,862,312
796,938	3,172,098
25,758,435	114,926,943
3,804,598	36,372,889
11,334,417	14,752,197
2,766,352	4,024,792
1,261,752	9,043,045
272,367	9,182,363
24,591	5,850,494
27,555	5,821,817
6,180,086	8,646,552
25,671,718	93,694,149
86,717	16,151,898
25,758,435	109,846,047
	1,157,117
	72,289
	2,259,516
	3,488,922
25,758,435	113,334,969
1,555,081	1,555,081
(956,772)	(1,816,011)
598,309	(260,930)
598,309	$ 1,331,044

The University of Montana – Missoula
STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES AND OTHER CHANGES
Year Ended June 30, 1996

	General Operating	Unrestricted Designated
REVENUES		
Tuition and Fees	$ 33,503,941	$ 5,036,16
State Appropriation	29,704,283	
Federal Grants and Contracts	151,288	
State and Local Grants/Contracts		
Private Gifts, Grants and Contracts		
Investment Income		33,00
Sales and Service		5,694,85
Indirect Cost Recoveries		2,268,24
Other Sources	239,442	1,635,16
TOTAL CURRENT REVENUES	**$ 63,598,954**	**$ 14,667,44**
EXPENDITURES AND MANDATORY TRANSFERS		
Educational and General:		
Instruction	$ 34,389,048	$ 2,824,21
Research	1,564,283	2,880,54
Public Service	461,778	1,102,41
Academic Support	8,303,409	1,013,57
Student Services	4,600,070	5,548,17
Institutional Support	5,288,502	413,03
Operations and Maintenance of Plant	6,288,717	325,52
Scholarships and Fellowships	2,613,015	262,24
EDUCATIONAL AND GENERAL EXPENDITURES	**$ 63,508,822**	**$ 14,369,72**
Auxiliary Enterprises Expenditures		17,79
TOTAL EXPENDITURES	**$ 63,508,822**	**$ 14,387,51**
MANDATORY TRANSFERS		
Principal and Interest	$	$ 212,06
Renewals and Replacements		
Other		
TOTAL MANDATORY TRANSFERS	**$**	**$ 212,06**
TOTAL EXPENDITURES, ADJUSTMENTS AND MANDATORY TRANSFERS	**$ 63,508,822**	**$ 14,599,58**
OTHER TRANSFERS – ADDITIONS(DEDUCTIONS)		
Restricted Receipts Over (Under)	$	$
Transfers to Revenue		
Non–Mandatory Transfers	(594,953)	(725,55
TOTAL OTHER TRANSFERS –ADDITIONS(DEDUCTIONS)	**$ (594,953)**	**$ (725,55**
NET INCREASE (DECREASE) IN FUND BALANCE	**$ (504,821)**	**$ (657,69**

See Summary of Significant Accounting Policies and Notes to Financial Statements.

Auxiliary Enterprises	Restricted	Total
$ 3,939,441	$	$ 42,479,551
		29,704,283
	19,374,537	19,525,825
	2,038,553	2,038,553
	6,120,269	6,120,269
316,649	233,765	583,418
16,242,383		21,937,238
		2,268,248
72,421	126,301	2,073,331
$ 20,570,894	**$ 27,893,425**	**$ 126,730,716**
$	$ 3,635,873	$ 40,849,132
	12,313,812	16,758,643
	3,263,378	4,827,573
	1,285,124	10,602,105
	291,978	10,440,221
	29,323	5,730,858
	20,944	6,635,187
	6,949,729	9,824,987
$	**$ 27,790,161**	**$ 105,668,706**
17,083,198	103,264	17,204,255
$ 17,083,198	**$ 27,893,425**	**$ 122,872,961**
$ 1,498,775	$	$ 1,710,841
215,825		215,825
1,744,487	688	1,745,175
$ 3,459,087	**$ 688**	**$ 3,671,841**
$ 20,542,285	**$ 27,894,113**	**$ 126,544,802**
$	$	$
	(53,053)	(53,053)
(11,500)	(6,014)	(1,338,019)
$ (11,500)	**$ (59,067)**	**$ (1,391,072)**
$ 17,109	**$ (59,755)**	**$ (1,205,158)**

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THE UNIVERSITY OF MONTANA - MISSOULA
A Component Unit of the State of Montana
NOTES TO FINANCIAL STATEMENTS
For the Two Years Ending June 30, 1996

1. Summary of Significant Accounting Policies

BASIS OF PRESENTATION

The University of Montana-Missoula financial statements include all activities of the University, the Forestry Experiment Station, and the Missoula College of Technology. Prior to fiscal year 1996, financial activity for the Missoula College of Technology was reported separately. The University of Montana also has administrative oversight for Montana Tech (including Butte College of Technology); Western Montana College; and Helena College of Technology. These financial statements exclude activity for those units which are reported separately by each campus.

The University of Montana - Missoula's (the University) financial statements are included as a component part of the State of Montana General Purpose Financial Statements which are prepared annually and presented in the Montana Comprehensive Annual Financial Report.

The University follows the standards of accounting and reporting as described by National College and University Business Officers (NACUBO). In accordance with Governmental Accounting Standard No. 15, "Governmental College and University Accounting and Reporting Models," the University has adopted the American Institute of Certified Public Accountants' (AICPA) "College Guide Model."

BASIS OF ACCOUNTING

The financial statements of the University have been prepared on the accrual basis, except for depreciation accounting. The statement of current funds revenues, expenditures, and other changes is a statement of financial activities related to the current reporting period. It does not purport to present the results of operations or the net income or loss for the period as would a statement of income or a statement of revenues and expenses.

To the extent that current funds are used to finance plant assets, the amounts so provided are accounted for as (1) expenditures, in the case of normal additions; (2) mandatory transfers, in the case of required provisions for debt amortization and interest, and property renewal and replacement; and (3) other transfers, for all other cases.

FUND ACCOUNTING

The financial records are maintained in accordance with the principles of fund accounting. These principles require that resources be classified for accounting and reporting purposes into fund groups according to the activities or objectives specified for the resources. Accounts are separately maintained for each fund. In the accompanying financial statements, funds that have similar characteristics have been combined into fund groups. Descriptions of these fund groups are as follows:

Current funds - Current funds are used primarily to account for transactions made in performing the primary and support objectives of the University: instruction, research, public service, academic support, student services, institutional support, operation and maintenance of plant, scholarships and fellowships, and auxiliary activities. Funds included in this classification consist of:

A. General operating funds - These funds are used to account for transactions relating to the educational and general operations of the University. The fund balance includes the unfunded liability of $6,376,341 for compensated absences and associated benefits.

B. Designated funds - These funds are used to account for educational-related, chargeback, and administrative activities which are essentially self-supporting. Resources in this fund group have been designated for specific purposes by the University.

C. Auxiliary enterprises funds - These funds are used to account for transactions of substantially self-supporting activities that primarily provide services for students, faculty and staff. Auxiliary enterprises include activities such as student housing, dining services, swim pool, golf course, and health/dental service.

D. Restricted funds - These funds are used to account for current funds expended for operating purposes but restricted by donors or other outside agencies as to the how they may be spent. Revenues of the restricted funds are reported in the statement of current funds revenues, expenditures and other changes only to the extent expended for current operating purposes. The excess of receipts over or under expenditures is included as an addition or deduction to fund balance for the year.

Student loan funds - These funds are available as loans to students to aid in financing their education and are provided by federal, private and University sources. The majority of the funds are provided by the federal government.

Endowment and similar funds - These funds have specific donor or other outside agency restrictions prohibiting the expenditure of the principal. Generally, the principal is to be maintained in perpetuity and invested to produce income. The income may or may not be restricted as to use, at the donor's instruction.

Plant funds - These funds are used to account for the transactions relating to investment in University properties. Plant funds include:

A. Unexpended plant fund - comprised of amounts which have been appropriated or designated for land, improvements, buildings, and equipment.

B. Renewal and replacement fund - comprised of amounts provided for renewal and replacement of properties.

C. Retirement of indebtedness fund - accumulates resources for interest and principal payments and other debt service charges relating to plant fund indebtedness.

D. Net investment in plant fund - represents the total of property, buildings, equipment, and related

liabilities.

Agency funds - These funds are used to account for assets held by the University as custodian or fiscal agent for others. Consequently, the transactions of this fund do not affect the statement of changes in fund balances.

2. Changes in Reporting

As part of a restructuring of the Montana University System, the Missoula College of Technology became a unit of The University of Montana effective July 1, 1994. The financial activity was combined with The University of Montana-Missoula in fiscal year 1996 and the resulting prior year adjustments are reflected in the restated fund balance.

3. Assets

Investments - Investments at June 30, 1996 consisted of the following:

	Investments Held by the State of Montana Board of Investments	Investments Held By Trustees
Cash Equivalents	$14,605,748	$29,147,318
Stocks and Bonds	2,381,920	
U.M. Foundation Pool		157,442
	$16,987,668	$29,304,760

Cash equivalents consist of cash invested in Guaranteed Investment Contracts with MBIA and AIG, in the Short Term Investment Pool (STIP) with the Montana Board of Investments, and in short-term, highly liquid investments with original maturities of three months or less. Cash equivalents are classified as Risk Category #1.

STIP investments are purchased in accordance with the statutorily mandated "Prudent Expert Principle". The STIP portfolio includes asset-backed and variable rate securities to provide diversification and a competitive rate of return. Asset-backed securities are collateralized by non-mortgage assets pledged by the issuer. Asset-backed securities have one or more forms of credit enhancement to raise the quality of the security.

Stocks and bonds consist of assets held in the Trust Funds Bond Pool (TFBP) and the Montana Stock Pool (Montcomp) administered by the Montana Board of Investments. Montcomp and TFBP investments are purchased in accordance with the statutorily mandated "Prudent Expert Principle".

The Montcomp portfolio includes common stock, convertible corporate debt consisting of coupon and zero coupon bonds and convertible equity securities. Common stock represents ownership units (shares) of a public corporation. Common stock owners are entitled to vote on director selection and other important matters as well as receive dividends on their holdings. Convertible securities are securities carrying the right to exchange, or "convert" the instrument for other securities of the issuer or of another issuer. This definition most often applies to preferred stocks or corporate bonds carrying the right to exchange for a fixed number of shares of the issuer's common stock. Zero coupon bonds, sold at a deep discount from par, make no periodic coupon payments.

The TFBP portfolio includes corporate asset-backed, other corporate, U.S. government mortgage-backed, government and yankee securities. Corporate asset-backed securities represent debt securities collateralized by a pool of assets. U.S. government mortgage-backed securities reflect participation in a pool of residential mortgages. Government securities include direct and indirect obligations of the U.S.

Treasury and state and local government bonds. Yankee bonds are U.S. dollar denominated bonds issued by foreign corporations and governments and U.S. companies issuing debt in foreign markets.

The UM Foundation Pool consists of certain endowment funds held in a common investment pool administered by the UM Foundation.

Investments are carried at cost or, in the case of gifts, fair market value at date of receipt. The market value of cash equivalents and investments held by the State of Montana Board of Investments was $16,952,607. The market value of cash equivalents and investments held by trustees was $29,331,883.

Inventories - Inventories are comprised of consumable supplies, food items, and items held for resale or recharge within the University. The larger inventories are valued using the moving average method. Other inventories are valued using fifo or specific identification methods.

Loans Receivable - The loans receivable consist of two types of loans, short term and long term. The short term loans are due in one payment 30 to 90 days from the date borrowed. The long term loans are generally repayable in installments to the University over a one-year to ten-year period beginning zero to twelve months from the date of separation from the University (depending on loan type). Loans receivable from students bear interest at rates ranging from 0 to 12 percent.

Plant Assets - Plant assets are stated at cost when purchased or constructed or, if acquired by gift, at the estimated fair market value at date of gift. Intangible assets consist entirely of computer software, which is amortized on a straight-line method over a five-year period. The value reported is net of accumulated amortization. Equipment acquired with restricted grants and contracts is recorded as an addition to investment in plant at the time of purchase. On certain grants and contracts, title to equipment purchased is vested with the grantor or contractor until completion of the project at which time the equipment may revert to the University.

Governmental Accounting Standard No. 8, "Applicability of FASB Statement No. 93, Recognition of Depreciation by Not-for-Profit Organizations to Certain State and Local Governmental Entities," provides that governmental colleges and universities should not change their accounting and reporting for depreciation of capital assets as a result of FASB Statement No. 93. Accordingly, the University does not record depreciation of plant assets.

Property, equipment and other assets at June 30, 1996 consisted of the following:

Intangible Assets	$	647,064
Buildings and Improvements		88,819,776
Furniture and Equipment		30,693,596
Library Books and Materials		29,461,651
Land/Land Improvements		10,954,115
Construction in Progress		52,917,207
Museum and Art Collection		4,686,790
Livestock		130,104
Total	$	218,310,303

In June, 1990, the University transferred title to property (land and buildings) to the University of Montana Foundation. The intent was for the property to be sold with the proceeds establishing an endowed scholarship fund to benefit University students. At the time of the transfer of title, the book value of the land and buildings was transferred from the Investment in Plant Fund to the Endowment Fund. Subsequently, a portion of the property was sold by the UM Foundation. In August, 1995, the Attorney General for the State of Montana ruled that the transfer of land/building from the University to the Foundation and subsequent sale were not in compliance with State law. The Attorney General instructed the Montana Board of Regents to reacquire the land/buildings sold and transfer back the title

for the remaining property. The sold property was re-acquired at a cost of $790,000. The title transfer of the unsold property is reflected on the Statement of Changes in the accompanying financial statements.

In 1881, the University became the beneficiary of a 46,709 acre land grant. Under provisions of the grant, proceeds from the sale of land and land assets must be reinvested and constitute, along with the balance of unsold land, a perpetual trust fund. The grant is administered as a trust by the State Land Board which holds title and has the authority to direct, control, lease, exchange and sell these lands. The University, as a beneficiary, does not have title to the assets resulting from the grant, only a right to the earnings generated. The University's share of the trust earnings were $179,754 and $196,180 in fiscal years 1995 and 1996, respectively.

4. Liabilities

Capital Leases - The University is obligated under equipment capital leases expiring in various years through fiscal year 2001. Liabilities are recorded at the total amount of principal payments scheduled under the lease contract. Property held under capital leases for fiscal years ending June 30, 1995 and June 30, 1996 totalled $2,448,662 and $2,707,032 respectively.

Minimum future lease payments under capital leases for the next five years are $470,071 in fiscal year 1997, $419,915 in fiscal year 1998, $325,286 in fiscal year 1999, $64,697 in fiscal year 2000, and $934 in fiscal year 2001. Interest over the five fiscal years 1997 through 2001 is $116,450. The outstanding principal on the lease payments is $1,164,461. Interest is stated in the contracts or based on the lessor's implicit rate of return. The University does not sublease its equipment under capital lease agreements.

Bonds Payable - On November 10, 1993, the University issued $47,095,000 in Series A 1993 Revenue bonds with interest rates ranging from 2.3 to 5.0 percent to advance refund $15,383,643 of outstanding 1985/1987 Series A and B Revenue bonds with interest rates ranging from 6.0 to 9.75 percent. Proceeds of $21,254,665, together with certain funds and monies of the University, were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to legally defease the 1985/1987 Series A and B bonds. The balance of the proceeds, together with certain funds and monies of the University provided funds for the acquisition, construction, repair, replacement, renovation, and improvement of certain facilities and properties at the University.

On January 5, 1995, the University issued $6,520,000 in Series B 1995 Revenue Bonds with interest ranging from 4.6 to 6.95 percent. On December 14, 1995, the University issued $25,041,752 in Series C 1995 Revenue Bonds with interest ranging from 3.8 to 5.375 percent. The proceeds from both issues provided funds for the acquisition, construction, repair, replacement, renovation, and improvement of certain facilities and properties at the University.

Revenue Bonds Payable - As of June 30, 1996, annual principal payments are as follows:

Series A 1993

Fiscal Year	Interest Rate	Principal
1997	3.40 - 3.60%	$1,490,000
1998	3.60 - 3.75%	1,545,000
1999	3.75 - 3.80%	1,605,000
2000	3.80 - 4.00%	1,665,000
2001+	4.00 - 5.00%	37,760,000
	Total	$44,065,000
	Less Unamortized Discount	(1,142,002)
	Total 1993 A Bonds Payable	$42,922,998

Series B 1995

Fiscal Year	Interest Rate	Principal
1997	4.80 - 5.00%	$265,000
1998	5.00 - 5.20%	270,000
1999	5.20 - 5.40%	295,000
2000	5.40 - 5.50%	300,000
2001+	5.50 - 6.65%	5,140,000
	Total 1995 B Bonds Payable	$6,270,000

Series C 1995

Fiscal Year	Interest Rate	Principal
1997	3.80 - 4.00%	
1998	4.00 - 4.10%	$199,439
1999	4.10 - 4.20%	403,742
2000	4.20 - 4.30%	432,929
2001+	4.30 - 5.375%	24,005,642
		$25,041,752
	Less Unamortized Discount	(989,615)
	Total C Bonds Payable	$24,052,137

In prior years, the University defeased certain bond issues by placing proceeds of new bonds in an irrevocable trust. The proceeds, together with interest earned thereon, will be sufficient for future debt service payments on the refunded issues. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the University's financial statements. At June 30, 1996, $7,635,000 of bonds outstanding are considered defeased.

Compensated Leave - Eligible University employees earn 8 hours sick and 10 hours annual leave for each month worked. The accrual rate for annual leave increases with longevity. Eligible employees may accumulate annual leave up to twice their annual accrual. Sick leave may accumulate without limitation. Twenty-five percent of accumulated sick leave earned after July 1, 1971 and 100 percent of annual leave vests to each employee as earned and, if not used during employment, is paid upon termination. Sick and annual leave expense includes an increase of $1,044,418 in estimated compensated absences liability.

5. Commitments

The accrual basis of accounting provides that expenditures include only amounts associated with goods and services received and that liabilities include only the unpaid amounts associated with such expenditures. Accordingly, approximately $339,974 of outstanding purchase orders and purchase commitments at June 30, 1996 are not reported in the accompanying financial statements.

As of June 30 1996, the University has initiated construction of the following major capital projects:

Project	Total Amount Authorized	Total Expenditures as of 6/30/96	Funding Source
Davidson Honors College	$ 2,000,000	$1,856,330	Private Donation
Business Administration Building	15,486,000	14,663,014	Private Donation & State Funds
University Center Renovation	5,177,000	4,522,014	1993 A Revenue Bonds Supplemented with Auxiliary & ASUM Funds
Residence Life Safety Renovation	1,835,000	1,085,898	1993 A Revenue Bonds
Miller Hall Renovation	5,165,000	4,754,699	1993 A Revenue Bonds
Parking Lot Renovations	800,000	629,088	1993 A Revenue Bonds
Family Housing Complex	8,122,000	6,741,415	1993 A & 1995 B Revenue Bonds
Parking Facility	1,100,000	1,098,234	1993 A Revenue Bonds
Pantzer Hall	8,000,000	7,944,905	1993 A Revenue Bonds
Family Housing Community Center	300,000	289,229	Auxiliaries
Campus Drive	1,000,000	963,721	1993 A Revenue Bonds
Prescott House/Grounds	650,000	120,730	1993 A & 1995 C Revenue Bonds
Lodge Renovation	2,000,000	134,594	1995 B & 1995 C Revenue Bonds
Stadium Renovation	2,500,000	2,433,125	1993 A & 1995 B Revenue Bonds
Lubrecht Residence Complex	875,000	96,314	1995 B Revenue Bonds
Student Health Renovation	3,150,000	2,289,680	1995 B Revenue Bonds & Auxiliaries
Law School Basement	1,000,000	263,771	Private Donation
Residence Life Cabling System	600,000	169,568	Auxiliaries
Adams Field House Renovation	12,000,000	106,756	1995 C Revenue Bonds with Supplemental Funding
Continuing Education Facility	3,500,000	49,063	1995 C Revenue Bonds
Family Housing Complex Phase Ii	3,340,000	93,106	1995 C Revenue Bonds
University Theater Renovation	2,000,000	14,210	1995 C Revenue Bonds
Parking Structure	1,000,000	119,238	1995 C Revenue Bonds
Printing Facility	875,000	0	1995 C Revenue Bonds
Stadium Meeting & Locker Rooms	500,000	420,790	1993 A & 1995 C Revenue Bonds with Supplemental Funding
Chemistry Stores	600,000	0	1995 B Revenue Bonds
Soccer Field Bleachers	150,000	762	Private Donations
Biotech Lab	400,000	350,626	Indirect Cost Recovery
Family Housing Parking Lot Repair	180,000	157,917	Auxiliaries
Total	$84,305,000	$51,368,797	

6. Federal Aid Fees

The University assesses a fee to cover administrative costs of the Federal Perkins Loan Fund and federal student aid programs. Federal regulations permit the entire fee to be charged to a single program or distributed equally, or unequally, to the various programs at the University's option. Administrative costs charged to federal financial aid programs in fiscal years ending June 30, 1995 and June 30, 1996 were $139,896 and $148,655, respectively.

7. Retirement Plans

Full-time employees of The University of Montana are all members of the Public Employees Retirement System (PERS), Teachers' Retirement System (TRS), or the Optional Retirement Program (ORP) as described below. Only faculty and administrators with contracts under the authority of the Board of Regents are enrolled under TRS or ORP. Beginning July 1, 1993 state legislation required all new faculty and administrators with contracts under the authority of the Board of Regents to enroll in ORP.

PERS and TRS

PERS and TRS are state-wide, cost-sharing multiple employer defined benefit retirement plans. The plans are established under State law and are administered by the State of Montana. The plans provide retirement, disability, and death benefits to plan members and beneficiaries. PERS, a mandatory system established by the State in 1945, provides retirement services to substantially all public employees.

TRS, established in 1937, provides retirement services to all persons employed as teachers or professional staff of any public elementary or secondary school, or unit of the University System.

Contribution rates for the plan are required and determined by State law. The contribution rates for 1996, expressed as a percentage of covered payroll are as follows:

	Employee	Employer
PERS	6.70%	6.70%
TRS	7.044%	7.47%

The amounts contributed to the plan during years ended June 30, 1994, 1995, and 1996 were equal to the required contribution each year. The amounts contributed were as follows:

		FY 1994	FY 1995	FY 1996
PERS -	Employer	1,196,032	1,244,059	1,359,635
	Employee	1,196,033	1,244,063	1,359,636
TRS -	Employer	1,376,623	1,302,770	1,486,044
	Employee	1,299,067	1,228,475	1,401,206

The plans issue publically available annual reports that include financial statements and required supplemental information. The reports may be obtained from the following:

Public Employees' Retirement Division
P.O. Box 200131
1712 Ninth Avenue
Helena, Montana 59620-0131
(406) 444-3154

ORP

ORP was established in 1988 and is underwritten by the Teachers' Insurance and Annuity Association - College Retirement Equities Fund (TIAA-CREF). The ORP is a defined contribution plan. Contribution rates for the plan are required and determined by State law. The University's contributions were equal to the required contribution. The benefits at retirement depend upon the amount of contributions, amounts of investment gains and losses and the employee's life expectancy at retirement. Under the

ORP, each employee enters into an individual contract with TIAA-CREF. The University of Montana records employee/employer contributions and remits monies to TIAA-CREF. Individuals are immediately vested with contributions.

Contributions to ORP for fiscal year 1996 are as follows:

	ORP (TIAA-CREF)
Covered Payroll	$14,074,059
Employer Contributions	697,441
Percent of Covered Payroll	4.956%
Employee Contributions	991,307
Percent of Covered Payroll	7.044%

In addition, a total of $352,359 or 2.503% was contributed to TRS from ORP employer contributions to amoratize past service unfunded liability in accordance with state law.

Annual reports that include financial statements and required supplemental information on the plan are available from:

TIAA-CREF
730 Third Avenue
New York, New York 10017-3206
1-800-842-2733

8. Contingencies

The university is a defendant in several legal actions. While the outcome cannot be determined at this time, management is of the opinion that liability, if any, from these actions will not have a material effect on the university's financial position.

Funds provided to the University and accounted for in the current restricted funds and student loan funds are subject to review and audit by cognizant granting agencies. The University does not expect any material adjustments or repayments to result from such audits.

Although the University is exempt from federal income tax as an instrumentality of the State of Montana, certain income generated may be considered unrelated business income by the Internal Revenue Service. The Montana University System files appropriate tax returns with the IRS to report such income. Because the tax liability for the System as a whole is not material, no provision is recorded in the accompanying financial statement.

9. Affiliated Organizations

The University of Montana is a component unit of the State of Montana. These financial statements include only the activities, funds, and accounts of the University. Private nonprofit organizations affiliated with the University include The University of Montana Foundation, the Grizzly Athletic Association, and The University of Montana Alumni Association. The foundation and associations operate exclusively for the purposes of encouraging, promoting, and supporting educational programs, research, scholarly pursuits, and athletics at, or in connection with, the University. In fiscal years 1995 and 1996 respectively, $3,272,887 and $6,283,899 was transferred to/expended for the University for scholarships and academic/institutional support from the Foundation; and $ 335,000 and $569,558 was transferred for scholarships and construction projects from the Grizzly Athletic Association. In exchange, the University provides the Foundation with office space and an annually contracted fee; and the associations with office space, staff, and some related office expenses.

10. Subsequent Events

In September, the Board of Regents of the Montana University System authorized the University to proceed with the issuance of Series D 1996 Revenue Bonds. In October, $15,815,987 in bonds were sold of which the proceeds will be used for the acquisition, construction, repair, replacement, renovation, and improvement of certain facilities and properties at the University.

Independent Auditor's Report & Montana Tech of The University of Montana Financial Statements

LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
John W. Northey, Legal Counsel
Tori Hunthausen, IT & Operations Manager

Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
James Gillett, Financial-Compliance Audit

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Balance Sheet of Montana Tech of The University of Montana, a component unit of the state of Montana, as of June 30, 1996 and the related Statements of Changes in Fund Balances and the Statements of Current Funds' Revenues, Expenditures and Other Changes for each of the two fiscal years ended June 30, 1996. The information contained in these financial statements is the responsibility of the university's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosure in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Montana Tech of The University of Montana as of June 30, 1996, and the changes in fund balances and the current funds revenues, expenditures, and other changes for each of the two fiscal years then ended in conformity with generally accepted accounting principles.

Respectfully submitted,

James Gillett

James Gillett, CPA
Deputy Legislative Auditor

November 15, 1996

Room 135, State Capitol Building PO Box 201705 Helena, MT 59620-1705
Phone (406) 444-3122 FAX (406) 444-9784 E-Mail lad@mt.gov

MONTANA TECH OF THE UNIVERSITY OF MONTANA
BALANCE SHEET
JUNE 30, 1996

	CURRENT FUNDS			
	UNRESTRICTED GENERAL OPERATING	DESIGNATED	RESTRICTED	AUXILIARIES
ASSETS:				
CASH ON HAND AND IN BANK	30,360	-	-	-
CASH ON DEPOSIT WITH STATE TREASURER	623,665	667,933	132,130	101,625
RECEIVABLES:				
STUDENT LOANS RECEIVABLE	-	-	-	-
ACCOUNTS RECEIVABLE	229,851	19,387	1,100,445	60,065
ACCRUED INTEREST RECEIVABLE	-	-	-	-
LESS ALLOWANCE FOR DOUBTFUL LOANS	-	-	-	-
TOTAL RECEIVABLES	229,851	19,387	1,100,445	60,065
INVESTMENTS: (Note 2)				
HELD BY TRUSTEES	-	-	1,851	-
STATE OF MONTANA SHORT-TERM INVESTMENT POOL/MONTCOMP	-	40,519	125,249	52,563
TOTAL INVESTMENTS	0	40,519	127,100	52,563
OTHER ASSETS:				
UNAMORTIZED BOND ISSUE COSTS	-	-	-	-
PREPAID COSTS AND ADVANCES	170,465	3,036	-	-
INVENTORIES	81,427	17,998	-	470,735
TOTAL OTHER ASSETS	251,892	21,034	0	470,735
DUE FROM(TO) OTHER FUNDS	(593,237)	80,317	(218,118)	(28,221)
INTER-ENTITY LOAN RECEIVABLE(PAYABLE)	700,000	-	(700,000)	-
PROPERTY, PLANT & EQUIPMENT:				
LAND	-	-	-	-
BUILDINGS	-	-	-	-
IMPROVEMENTS	-	-	-	-
EQUIPMENT	-	-	-	-
LIBRARY BOOKS	-	-	-	-
INTANGIBLE ASSETS	-	-	-	-
MUSEUM & ART COLLECTION	-	-	-	-
TOTAL PROPERTY, PLANT AND EQUIP.	0	0	0	0
TOTAL ASSETS	1,242,531	829,190	441,557	656,767
LIABILITIES:				
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	574,897	131,517	88,352	44,906
COMPENSATED ABSENCES (Notes 1 and 5)	1,721,481	111,772	-	26,103
EARLY RETIREMENT PLANS PAYABLE	167,334	-	-	-
ACCRUED BOND INTEREST PAYABLE	-	-	-	-
OTHER LIABILITIES AND DEPOSITS	-	-	-	26,902
DEFERRED REVENUES	273,030	29,257	110,756	9,913
LONG TERM LEASE PAYMENT (Note 6)	-	-	-	-
PREMIUM ON BONDS PAYABLE	-	-	-	-
BONDS PAYABLE (Note 3)	-	-	-	-
TOTAL LIABILITIES	2,736,742	272,546	199,108	107,824
FUND BALANCES	(1,494,211)	556,644	242,449	548,943
UNEXPENDED	-	-	-	-
RENEWAL AND REPLACEMENT	-	-	-	-
TOTAL LIABILITIES & FUND BALANCES	1,242,531	829,190	441,557	656,767

See notes to financial statements

			PLANT FUNDS		
STUDENT LOAN FUND	ENDOWMENT FUND	AGENCY FUND	UNEXPENDED	RETIREMENT OF INDEBTEDNESS	INVESTMENT IN PLANT
6,868	-	-	1	-	-
7,905	54	148,935	381,094	-	-
790,495	-	71,888	-	-	-
-	-	387	119,583	-	-
-	-	-	58,259	-	-
(15,000)	-	-	-	-	-
775,495	0	72,275	177,842	0	0
-	548,969	-	4,276,848	49	-
102,147	374,900	130,797	249,182	-	-
102,147	923,869	130,797	4,526,030	49	0
-	-	-	-	170,521	-
85	-	-	332	-	-
-	-	-	-	-	-
85	0	0	332	170,521	0
(382)	0	730,837	28,804	-	-
-	-	-	-	-	-
-	-	-	-	-	1,165,947
-	-	-	-	-	30,358,343
-	-	-	-	-	3,252,289
-	-	-	-	-	15,236,069
-	-	-	-	-	1,215,077
-	-	-	-	-	912,974
-	-	-	-	-	341,875
0	0	0	0	0	52,482,574
892,118	923,923	1,082,844	5,114,103	170,570	52,482,574
-	-	857,619	294,296	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	41,658	-
-	-	225,225	-	-	-
-	-	-	17,928	-	-
-	-	-	-	-	96,625
-	-	-	-	23,392	-
-	-	-	2,932,590	150,542	5,583,647
		1,082,844	3,244,814	215,592	5,680,272
892,118	923,923	-	-	(45,022)	46,802,302
-	-	-	1,671,729	-	-
-	-	-	197,560	-	-
892,118	923,923	1,082,844	5,114,103	170,570	52,482,574

MONTANA TECH OF THE UNIVERSITY OF MONTANA
STATEMENT OF CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 1996

	CURRENT FUNDS			
	UNRESTRICTED GENERAL OPERATING	DESIGNATED	RESTRICTED	AUXILIARIES
REVENUES AND OTHER ADDITIONS:				
CURRENT FUND REVENUES -				
COLLEGE	13,283,114	1,759,340	6,051,209	2,252,986
BUREAU OF MINES	1,929,800	-	-	-
LAND GRANT INCOME (Note 4)	-	-	-	-
RESTRICTED STUDENT FEES	-	-	-	-
STATE APPROPRIATION	-	-	-	-
FEDERAL CONTRIBUTIONS	-	-	-	-
INVESTMENT INCOME	-	4,140	26,815	4,151
INTEREST ON LOANS	-	-	-	-
EXPENDED FOR PLANT FACILITIES	-	-	-	-
PRIVATE GIFTS & DONATIONS	-	-	-	-
OTHER	-	-	-	-
BOND PROCEEDS	-	-	-	-
TOTAL REVENUES & OTHER ADDITIONS	15,212,914	1,763,480	6,078,024	2,257,137
EXPENDITURES AND OTHER DEDUCTIONS:				
EDUCATIONAL AND GENERAL EXPENDITURES -				
GENERAL	13,049,403	1,668,154	5,998,327	2,269,861
BUREAU OF MINES	2,013,420	142,758	-	-
INDIRECT COST RECOVERIES	-	-	20,167	-
COMPENSATED ABSENCES (Notes 1 and 5)	132,297	37,447	-	1,642
LOAN CANCELLATIONS,CLCTN CSTS & BAD DEBT EXPENSES	-	-	-	-
EXPENDED FOR PLANT FACILITIES	-	-	-	-
RETIREMENT OF INDEBTEDNESS	-	-	-	-
INTEREST ON INDEBTEDNESS	-	-	-	-
INCREASE IN INDEBTEDNESS	-	-	-	-
DISPOSAL OF PLANT FACILITIES	-	-	-	-
LOSS ON BOND DEFEASANCE	-	-	-	-
LOSS ON CALL / PREMIUM BONDS	-	-	-	-
OTHER EXPENDITURES	-	-	-	-
TOTAL EXPENDITURES AND OTHER DEDUCTIONS	15,195,120	1,848,359	6,018,494	2,271,503
TRANSFERS AMONG FUNDS -				
ADDITIONS (DEDUCTIONS)				
MANDATORY:				
PRINCIPAL & INTEREST	-	-	-	-
UNEXPENDED PLANT	-	-	-	(25,000)
NON-MANDATORY:				
LOAN TRANSFER	-	4,905	-	-
RENEWAL AND REPLACEMENT	-	(186,000)	-	-
TOTAL TRANSFERS	0	(181,095)	0	(25,000)
NET INCREASE (DECREASE) IN FUND BALANCES	17,794	(265,974)	59,530	(39,366)
FUND BALANCE, BEG. OF YEAR AS PREVIOUSLY REPORTED	(1,272,814)	807,335	177,848	563,575
REPORTING ENTITY CHANGE (Note 9)	(239,191)	15,283	5,071	24,734
FUND BALANCE,BEG. OF YEAR AS ADJ.	(1,512,005)	822,618	182,919	588,309
FUND BALANCE, END OF YEAR	(1,494,211)	556,644	242,449	548,943
FUND BALANCE CONSISTS OF:				
UNRESTRICTED -				
GENERAL	244,320	668,416	-	575,046
BUREAU OF MINES	83,605	-	-	-
COMPENSATED ABSENCES (Notes 1 and 5)	(1,721,481)	(111,772)	-	(26,103)
OTHER	(100,655)	-	-	-
FUNDS FUNCTIONING AS ENDOWMENT-UNRESTRICTED	-	-	-	-
RESTRICTED - GENERAL	-	-	242,449	-
NET INVESTMENT IN PLANT	-	-	-	-
TOTAL FUND BALANCES	(1,494,211)	556,644	242,449	548,943

See notes to financial statements

		PLANT FUNDS		
STUDENT LOAN FUND	ENDOWMENT FUND	UNEXPENDED	RETIREMENT OF INDEBTEDNESS	INVESTMENT IN PLANT
-	-	-	-	-
-	-	-	-	-
-	-	531,437	-	-
-	-	306,679	-	-
-	-	158,470	-	-
60,000	-	-	22,938	-
6,749	-	176,082	18,755	-
14,631	-	-	-	-
-	-	-	-	2,151,938
-	-	390,004	-	71,466
20,589	-	23,687	-	-
-	-	-	5,584,200	-
101,969	0	1,586,359	5,625,893	2,223,404
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
12,374	-	-	-	-
-	-	1,288,352	-	-
-	-	-	5,485,000	-
-	-	-	367,622	-
-	-	-	-	29,403
-	-	-	-	247,986
-	-	-	99,476	-
-	-	-	153,000	-
-	-	-	3,966	-
12,374	0	1,288,352	6,109,064	277,389
-	-	166,283	(166,283)	-
-	-	25,000	-	-
(4,905)	-	-	-	-
-	-	186,000	-	-
(4,905)	0	377,283	(166,283)	0
84,690	0	675,290	(649,454)	1,946,015
807,428	923,923	1,073,656	604,432	36,430,041
-	-	120,343	-	8,426,246
807,428	923,923	1,193,999	604,432	44,856,287
892,118	923,923	1,869,289	(45,022)	46,802,302
81,441	18,000	481,033	(45,022)	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	548,969	-	-	-
810,677	356,954	1,388,256	-	-
-	-	-	-	46,802,302
892,118	923,923	1,869,289	(45,022)	46,802,302

MONTANA TECH OF THE UNIVERSITY OF MONTANA
STATEMENT OF CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 1995

	CURRENT FUNDS			
	UNRESTRICTED GENERAL OPERATING	DESIGNATED	RESTRICTED	AUXILIARIES
REVENUES AND OTHER ADDITIONS:				
CURRENT FUND REVENUES -				
COLLEGE	11,268,324	1,462,346	4,275,799	2,028,977
BUREAU OF MINES	2,117,554	-	-	-
LAND GRANT INCOME (Note 4)	-	-	-	-
RESTRICTED STUDENT FEES	-	-	-	-
STATE APPROPRIATION	-	-	-	-
FEDERAL CONTRIBUTIONS	-	-	-	-
INVESTMENT INCOME	-	4,815	24,533	3,938
INTEREST ON LOANS	-	-	-	-
EXPENDED FOR PLANT FACILITIES	-	-	-	-
PRIVATE GIFTS & DONATIONS	-	-	-	-
OTHER	-	-	-	-
DECREASE IN INDEBTEDNESS	-	-	-	-
TOTAL REVENUES & OTHER ADDITIONS	13,385,878	1,467,161	4,300,332	2,032,915
EXPENDITURES AND OTHER DEDUCTIONS:				
EDUCATIONAL AND GENERAL EXPENDITURES -				
GENERAL	11,335,268	987,884	4,275,822	1,962,205
BUREAU OF MINES	1,889,990	135,454	-	-
INDIRECT COST RECOVERIES	-	-	15,318	-
COMPENSATED ABSENCES (Note 5)	138,211	5,934	-	2,399
LOAN CANCELLATIONS,CLCTN CSTS & BAD DEBT EXPENSES	-	-	-	-
EXPENDED FOR PLANT FACILITIES	-	-	-	-
RETIREMENT OF INDEBTEDNESS	-	-	-	-
INTEREST ON INDEBTEDNESS	-	-	-	-
DISPOSAL OF PLANT FACILITIES	-	-	-	-
TOTAL EXPENDITURES AND OTHER DEDUCTIONS	13,363,469	1,129,272	4,291,140	1,964,604
TRANSFERS AMONG FUNDS -				
ADDITIONS (DEDUCTIONS)				
MANDATORY:				
PRINCIPAL & INTEREST	-	-	-	-
UNEXPENDED PLANT	-	-	-	(47,175)
NON-MANDATORY:				
LOAN TRANSFER	-	4,466	-	-
RENEWAL AND REPLACEMENT	-	(196,000)	-	-
TOTAL TRANSFERS	0	(191,534)	0	(47,175)
NET INCREASE (DECREASE) IN FUND BALANCES	22,409	146,355	9,192	21,136
FUND BALANCE, BEG. OF YEAR AS PREVIOUSLY REPORTED	(1,295,223)	660,980	168,656	542,439
PRIOR YEAR ADJUSTMENT (Note 11)	-	-	-	-
FUND BALANCE,BEG. OF YEAR AS ADJ.	(1,295,223)	660,980	168,656	542,439
FUND BALANCE, END OF YEAR	(1,272,814)	807,335	177,848	563,575
FUND BALANCE CONSISTS OF:				
UNRESTRICTED -				
GENERAL	129,080	881,660	-	586,379
BUREAU OF MINES	107,224	-	-	-
COMPENSATED ABSENCES (Note 1 & 5)	(1,413,448)	(74,325)	-	(22,804)
OTHER	(95,670)	-	-	-
FUNDS FUNCTIONING AS ENDOWMENT-UNRESTRICTED	-	-	-	-
RESTRICTED - GENERAL	-	-	177,848	-
NET INVESTMENT IN PLANT	-	-	-	-
TOTAL FUND BALANCES	(1,272,814)	807,335	177,848	563,575

See notes to financial statements

		PLANT FUNDS		
STUDENT LOAN FUND	ENDOWMENT FUND	UNEXPENDED	RETIREMENT OF INDEBTEDNESS	INVESTMENT IN PLANT
-	-	-	-	-
-	-	-	-	-
-	-	476,823	-	-
-	-	280,891	-	-
-	-	214,777	-	-
59,713	-	-	22,938	-
7,498	-	66,206	31,445	-
11,481	-	-	-	-
-	-	-	-	1,149,959
-	900	-	-	151,518
20,504	-	38,941	-	-
-	-	-	-	246,238
99,196	900	1,077,638	54,383	1,547,715
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
366	-	-	-	-
-	-	844,504	-	-
-	-	-	175,000	-
-	-	-	417,780	-
-	-	-	-	58,581
366	0	844,504	592,780	58,581
-	-	(559,301)	559,301	-
-	-	47,175	-	-
(4,466)	-	-	-	-
-	-	196,000	-	-
(4,466)	0	(316,126)	559,301	0
94,364	900	(82,992)	20,904	1,489,134
713,064	374,054	1,156,648	583,528	34,940,907
-	548,969	-	-	-
713,064	923,023	1,156,648	583,528	34,940,907
807,428	923,923	1,073,656	604,432	36,430,041
81,324	18,000	444,272	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	548,969	-	-	-
726,104	356,954	629,384	604,432	-
-	-	-	-	36,430,041
807,428	923,923	1,073,656	604,432	36,430,041

MONTANA TECH OF THE UNIVERSITY OF MONTANA
STATEMENT OF CURRENT FUNDS' REVENUES, EXPENDITURES AND OTHER CHANGES
FOR THE YEAR ENDED JUNE 30, 1996

	UNRESTRICTED GENERAL OPERATING FUND	DESIGNATED FUND	RESTRICTED FUND	AUXILIARIES FUND
REVENUES:				
TUITION AND FEES	4,616,330	432,741	-	-
STATE APPROPRIATIONS:				
COLLEGE	8,666,784	-	-	-
BUREAU OF MINES	1,870,129	-	-	-
FEDERAL GRANTS & CONTRACT	-	-	3,667,682	-
STATE GRANTS & CONTRACT	-	22,263	770,317	-
PRIVATE GRANTS & CONTRACTS	-	-	1,337,258	-
INVESTMENT INCOME	-	4,140	26,815	4,151
AUXILIARY ENTERPRISES	-	-	-	2,252,986
SALES AND SERVICES	59,671	205,318	88,748	-
INDIRECT COST RECOVERIES	-	644,802	-	-
OTHER SOURCES	-	454,216	107,507	-
TOTAL REVENUES	15,212,914	1,763,480	5,998,327	2,257,137
EXPENDITURES:				
EDUCATIONAL & GENERAL:				
INSTRUCTION	7,277,159	242,623	-	-
RESEARCH	46,281	971,147	3,657,092	-
ACADEMIC SUPPORT	1,112,837	-	484,849	-
STUDENT SERVICES	1,420,166	418,728	223,257	-
OPERATION AND MAINTENANCE OF PLANT	1,896,862	-	-	-
INSTITUTIONAL SUPPORT	947,003	35,656	-	2,269,861
SCHOLARSHIPS AND FELLOWSHIPS	409,095	-	1,633,129	-
RECOVERY FROM BUREAU OF MINES	(60,000)	-	-	-
TOTAL EDUCATIONAL & GENERAL EXP.	13,049,403	1,668,154	5,998,327	2,269,861
INDEPENDENT OPERATIONS:				
BUREAU OF MINES	1,401,182	142,758	-	-
GROUND WATER ASSESSMENT	552,238	-	-	-
SERVICES PROVIDED BY COLLEGE	60,000	-	-	-
TOTAL INDEPENDENT OPERATIONS	2,013,420	142,758	0	0
COMP ABSENCES/EARLY RET. PLANS (Notes 1 and 5)	132,297	37,447	-	1,642
TOTAL EXPENDITURES	15,195,120	1,848,359	5,998,327	2,271,503
MANDATORY TRANSFERS:				
UNEXPENDED PLANT	-	-	-	(25,000)
NON-MANDATORY TRANSFERS:				
RENEWAL AND REPLACEMENT	-	(186,000)	-	0
LOAN TRANSFER	-	4,905	-	-
RESTRICTED RECEIPTS OVER(UNDER) TRANSFERS TO REVENUE	-	-	59,530	-
TOTAL TRANSFERS	0	(181,095)	59,530	(25,000)
NET INCREASE (DECREASE) IN FUND BALANCE	17,794	(265,974)	59,530	(39,366)

See notes to financial statements

MONTANA TECH OF THE UNIVERSITY OF MONTANA
STATEMENT OF CURRENT FUNDS' REVENUES, EXPENDITURES AND OTHER CHANGES
FOR THE YEAR ENDED JUNE 30, 1995

	UNRESTRICTED GENERAL OPERATING FUND	DESIGNATED FUND	RESTRICTED FUND	AUXILIARIES FUND
REVENUES:				
TUITION AND FEES	3,553,473	288,405	-	-
STATE APPROPRIATIONS:				
COLLEGE	7,714,851	-	-	-
BUREAU OF MINES	2,081,458	-	-	-
FEDERAL GRANTS & CONTRACT	-	-	2,987,567	-
STATE GRANTS & CONTRACT	-	22,475	563,495	-
PRIVATE GRANTS & CONTRACTS	-	-	554,204	-
INVESTMENT INCOME	-	4,815	24,533	3,938
AUXILIARY ENTERPRISES	-	-	-	2,028,977
SALES AND SERVICES	36,096	147,250	57,062	-
INDIRECT COST RECOVERIES	-	554,293	-	-
OTHER SOURCES	-	449,923	66,154	-
TOTAL REVENUES	13,385,878	1,467,161	4,253,015	2,032,915
EXPENDITURES:				
EDUCATIONAL & GENERAL:				
INSTRUCTION	6,198,209	198,345	-	-
RESEARCH	43,640	529,942	2,612,952	-
ACADEMIC SUPPORT	862,223	-	313,560	-
STUDENT SERVICES	1,340,366	323,244	221,432	-
OPERATION AND MAINTENANCE OF PLANT	1,783,503	-	-	-
INSTITUTIONAL SUPPORT	834,806	(63,647)	-	1,962,205
SCHOLARSHIPS AND FELLOWSHIPS	332,521	-	1,105,071	-
RECOVERY FROM BUREAU OF MINES	(60,000)	-	-	-
TOTAL EDUCATIONAL & GENERAL EXP.	11,335,268	987,884	4,253,015	1,962,205
INDEPENDENT OPERATIONS:				
BUREAU OF MINES	1,259,165	135,454	-	-
GROUND WATER ASSESSMENT	570,825	-	-	-
SERVICES PROVIDED BY COLLEGE	60,000	-	-	-
TOTAL INDEPENDENT OPERATIONS	1,889,990	135,454	0	0
COMP ABSENCES/EARLY RET. PLANS (Note 5)	138,211	5,934	-	2,399
TOTAL EXPENDITURES	13,363,469	1,129,272	4,253,015	1,964,604
MANDATORY TRANSFERS:				
UNEXPENDED PLANT	-	-	-	(47,175)
NON-MANDATORY TRANSFERS:				
RENEWAL AND REPLACEMENT	-	(196,000)	-	-
LOAN TRANSFER	-	4,466	-	-
RESTRICTED RECEIPTS OVER(UNDER) TRANSFERS TO REVENUE	-	-	9,192	-
TOTAL TRANSFERS	0	(191,534)	9,192	(47,175)
NET INCREASE (DECREASE) IN FUND BALANCE	22,409	146,355	9,192	21,136

See notes to financial statements

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MONTANA TECH OF THE UNIVERSITY OF MONTANA

NOTES TO FINANCIAL STATEMENTS
FOR THE TWO YEARS ENDED JUNE 30, 1996

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Montana Tech of The University of Montana follows the standards of accounting and reporting as described by National Association of College and University Business Officers (NACUBO). In accordance with Governmental Accounting Standard No. 15, "Governmental College and University Accounting and Reporting Models," the College has adopted the American Institute of Certified Public Accountants' (AICPA) "College Guide Model."

The College's financial statements are included as a component part of the State of Montana General Purpose Financial Statements that are prepared annually and presented in the Montana Comprehensive Annual Financial Report (CAFR).

In January 1994 , the Montana Board of Regents of Higher Education approved the restructuring of the Montana University System. As part of that restructuring, effective July 1, 1994, the University has administrative oversight for Montana Tech of The University of Montana; Western Montana College; and Butte, Helena, and Missoula College of Technologies. These financial statements include activity for Montana Tech of The University of Montana and, for fiscal year 1995-96, the Butte College of Technology, which were fully merged on July 1, 1995.

Accrual Basis

The financial statements have been prepared on the accrual basis in accordance with generally accepted accounting principles for colleges and universities except that depreciation on plant assets is not recorded.

The statements of current funds revenues, expenditures and other changes are statements of financial activities of current funds related to the current reporting period and do not purport to present the results of operations or the net income or loss for the periods.

Fund Accounting

The accounts of the college are maintained in accordance with the principles of fund accounting wherein resources are classified for accounting purposes into funds that are identified by the limitations and restrictions placed on their use.

Separate accounts are maintained for each fund; however, accounts with common characteristics are combined into fund groups and reflected as such in the accompanying financial statements.

Montana Bureau of Mines & Geology, a separate state agency, for appropriation purposes, functions as an integral part of the college. Applicable revenues and expenditures are identified separately in the financial reports.

The common characteristics of the funds contained in the various groups are as follows:

Current Funds:

The current funds group includes economic resources expendable in performing the primary objectives of the College, i.e., instruction, research and public service. The current funds' group have two basic distinct subgroups: unrestricted funds which have no expenditure restrictions and restricted funds which have expenditure restrictions.

Unrestricted current funds are comprised of the following:

General Operating - utilized for general operations in performing the primary objectives of the college. Appropriations in the General Operating account are made by the Legislature for operating purposes of Montana Tech of The University of Montana. Expenditures against these appropriations are funded by corresponding funds at the state level. The negative fund balance in the unrestricted general operating account includes the unfunded liability of $1,721,481 for compensated absences, the unfunded liability of $46,446 for PERS early retirement incentive program and the unfunded liability of $120,888 for the TRS voluntary termination incentive program.

Designated - utilized for education and laboratorial related service activities which are self-supporting. These funds are separately classified in order to accumulate and distinguish the cost of these specialized services or function areas.

Auxiliaries - utilized in providing essential on-campus services primarily to students, faculty and staff (self-supporting).

Restricted current funds are utilized for financing current operations, but limited by external donors and funding agencies to specific purposes, programs and departments.

Student Loan Funds:

The resources from this group of funds are available to students to aid in financing their education. Funds for the loans are provided by government, private and college sources with the majority of the funds being provided by the federal government.

Endowment Funds:

Endowment funds are funds with specific donor or other outside agency restrictions limiting the expenditure of the principal. Generally, the principal is to be maintained in perpetuity and invested for the purpose of producing income.

Plant Funds:

Plant funds are separated into three distinct self-balancing subgroup accounts:

Unexpended Plant - utilized for long-term institutional assets and for institutional asset maintenance.

Retirement of Indebtedness - utilized for debt servicing and retirement of indebtedness. The negative fund balance in the retirement of indebtedness account fund includes the liability for accrued bond interest payable in the amount of $41,658 at fiscal year end for the Series C revenue bonds. A transfer of funds from net pledged revenues will be made when the actual bond payment is made.

Investment in Plant - denotes the cost of long-term institutional assets and related liabilities and equity.

Agency Funds:

Agency funds - includes assets held by the institution as a custodian or fiscal agent for other organizations or individuals.

Inventories

Inventories, which consist mainly of bookstore supplies, are generally valued at cost.

Plant and Equipment

Equipment acquired with restricted grants and contracts is recorded as additions to investment in plant at the time of purchase. On certain grants and contracts, title to equipment purchased is vested with the grantor or contractor until completion of the project at which time the equipment may revert to the college.

No provision has been made for depreciation of plant facilities.

Deferred Revenues

Summer school tuition and fee revenues and related expenses are deferred at June 30 and recorded as revenue and expense in the succeeding fiscal years.

Retirement Plans

Full-time employees of Montana Tech are all members of the Public Employees' Retirement System (PERS), Teachers' Retirement System (TRS), or the Optional Retirement Program (ORP). Prior to July 1, 1993, only faculty and staff with contracts under the authority of the Board of Regents elected either the TRS or the ORP. Effective July 1, 1993, all academic and professional administrative personnel with individual contracts under the authority of the Board of Regents are required to participate in the ORP unless they have current vested benefits in TRS. Employees with current benefits in PERS, may elect coverage in the ORP when employed into a professional administrative position.

ORP - The ORP was established in January of 1988 under Title 19, Chapter 21, MCA, and is underwritten by the Teachers' Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF). The ORP is a defined contribution plan. The benefits at retirement depend upon the amount of contributions, amounts of investment gains and losses and the employee's life expectancy at retirement. Under the ORP, each employee enters into an individual contract with TIAA-CREF. Montana Tech records employee/employer contributions, and remits monies to the Commissioner of Higher Education. The Commissioner's Office then transfers the contributions to TIAA-CREF. Individuals are immediately vested with contributions.

TRS - This mandatory system established in 1937 and governed by Title 19, Chapter 20, MCA, provides retirement services to all persons employed as teachers or professional staff of any public elementary or secondary school, vocational-technical center or unit of the University System. The plan issues publicly available annual reports that include financial statements and required supplemental information for the plan. These reports may be obtained from the following:

Teachers Retirement Division
P.O. Box 200139
1500 Sixth Avenue
Helena, MT 59620-0139
406-444-3134

PERS - This mandatory system established in 1945 and governed by Title 19, Chapter 3, MCA, provides retirement services to substantially all public employees. The plan issues publicly available annual reports that include financial statements and required supplemental information for the plan. These reports may be obtained from the following:

Public Employees Retirement Division
P.O. Box 200131
1712 Ninth Avenue
Helena, MT 59620-0131
406-444-3154

Contribution rates for the plans are required and determined by state law. The amounts contributed to the plans during the years ended June 30, 1994, 1995 and 1996 (including contributions for early retirement) were equal to the required contributions. The rate of employer contributions to the above three plans was 4.956% for ORP, 7.470% for TRS, and 6.700% for PERS for the three years ended June 30, 1996, except the rate for TRS was 7.459% for the period from July 1, 1993 to December 31, 1993. The rate of employee contributions to the above three plans was 7.044% for ORP and TRS, and 6.700% for PERS for the three years ended June 30, 1996. Employees contributed to ORP $121,523, $152,623 and $204,602 for the years ended June 30, 1994, 1995 and 1996, respectively. Employer contributions to the three plans for each of the years ended June 30, 1994, 1995 and 1996 were as follows:

	ORP (TIAA-CREF)	TRS	PERS
June 30, 1994	85,501	384,660	178,957
June 30, 1995	107,382	341,992	178,700
June 30, 1996	143,953	389,903	204,573

For ORP participants, 2.503% ($43,182 in fiscal year 1994, $54,233 in fiscal year 1995, and $72,703 in fiscal year 1996) was contributed to TRS as employer contributions to amortize past service unfunded liability in accordance with Title 19, Chapter 21, MCA.

Statewide Budgeting and Accounting System

The balance sheet, statement of changes in fund balances and statement of current funds' revenues, expenditures and other changes have been prepared in accordance with generally accepted accounting principles; consequently, these reports may differ from the financial information recorded in the Statewide Budgeting and Accounting System.

NOTE 2 - INVESTMENTS

Investments at June 30, 1996 consisted of the following:

Montana Common Stock Pool (Mont Comp)	$ 42,014
Montana Short-term Investment Pool (STIP)	1,033,343
First Bank Trustee Account L-T	659,325
Montana Tech Foundation L-T	550,820
First Bank Trustee Account Cash Equiv.	3,617,572
	$ 5,903,074

Investments are carried at cost which approximate market value at June 30, 1996. The investments are risk category 1 because they are insured and are held by the state or its agent in the College's name.
The investments at June 30, 1996 are owned by the following funds:

Designated Funds	$ 40,519
Restricted Funds	127,100
Auxiliaries Fund	52,563
Student Loan Fund	102,147
Endowment Fund	923,869
Agency Fund	130,797
Unexpended Plant Fund	4,526,030
Retirement of Indebtedness Plant Fund	49
	$ 5,903,074

NOTE 3 - BONDS PAYABLE

On December 14, 1995 The University of Montana issued $8,660,780 in Series C Facilities Acquisiton and Improvement Revenue bonds with interest ranging from 3.8 to 5.75 percent to acquire $5,300,000 of outstanding Montana Tech Series A 1986 Revenue bonds with interest rates ranging from 7.0 to 7.625 percent. Proceeds of $5,583,647 were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an excrow agent to provide for all future debt service payment on the Series A 1986 bonds. As a result, the Series A 1986 bonds are considered to be legally defeased and the liability for those bonds has been removed from Montana Tech's financial records.

Montana Tech advance refunded the series A 1986 bonds to spread its total debt service payments over the next 22 years by $756,751 and to obtain an economic gain of $525,503.

The balance of the proceeds, together with certain funds and monies of the University after payment of $174,487 in underwriting fees, insurance, surety bonds, and other costs of issuance, provided funds for the acquisition, construction, repair, replacement, renovation, and improvement of certain facilities and properties at Montana Tech.

Revenue Bonds Payable - As of June 30, 1996 annual principal payments are as follows:

Series C 1995

Fiscal Year	Interest Rate	Principal
1997	3.80 - 4.00	$ 310,000
1998	4.00 - 4.10	350,000
1999	4.10 - 4.20	365,000
2000	4.20 - 4.30	380,000
2001	4.30 - 4.38	395,000
2002 +	4.38 - 5.75	6,866,780
	Total	$ 8,666,780

In prior years, the College defeased certain bond issues by placing proceeds of new bonds in an irrevocable trust. The proceeds, together with interest earned thereon, will be sufficient for future debt service payments on the refunded issues. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the College's financial statements. At June 30, 1996, $7,050,000 of bonds outstanding are considered defeased.

NOTE 4 - LAND GRANT STATUS

The congress of the United States, by the enabling act approved February 22, 1889, granted to the State of Montana 100,000 acres for the college and provided that all monies received from the sale of lands belonging to this grant, together with proceeds from the sale of timber, oil royalties and other minerals, should be credited to a permanent fund for each of the land grant institutions. These monies are currently pledged to the Series A 1986 revenue bonds. It also provided that permanent funds could not be used for any other purpose and must remain forever inviolate as the property of each of the land grant funds.

The college's land grant assets are not reflected in these financial statements, but are included as a component of the State of Montana General Purpose Financial Statements that are prepared annually and presented in the Montana Comprehensive Annual Financial Report (CAFR).

NOTE 5 - COMPENSATED ABSENCES

On July 1, 1982, the college started accounting for unused vacation and sick leave in accordance with the Statement of Financial Accounting Standards No. 43, Accounting for Compensated Absences. Permanent employees can accumulate and carry to the following calendar year two times the maximum number of vacation days earned annually. Unused vacation leave is paid at full value to employees upon termination. Upon termination, unused sick leave earned since July 1, 1971, is paid to the employee at 25% value.

The accumulated liability for compensated absences totalled $1,510,577 and$1,859,356 for the years ended June 30, 1995 and 1996.

NOTE 6 - NOTES PAYABLE

A note payable is due Xerox Corporation for the purchase of a Xerox 1090. It is payable in monthly payments of $332 including interest, through January 1999. Minimum principal payments are: FY97-$3,233; FY98-$3,467; FY99-$5,449.

An installment finance agreement has been completed with Norwest Investment Services, Inc. for an Inductively Coupled Plasma Mass Spectrometer and related equipment. It is payable in yearly payments of $46,076.27 including interest, through July 31, 1997. Minimum principal payments are: FY97-$41,008; and FY98-$43,468.

NOTE 7 - COMMITMENTS

As of June 30, 1996, the College has initiated construction on the following major capital projects:

Project	Total Amount Authorized	Total Expenditures as of 6/30/96	Funding Source
Student Union/Mill Building	$ 3,900,000	$ 0	1995 C Revenue Bonds
Chemistry Bldg.. Renovation	5,895,000	150,504	Private Donations, Grants,Other, And State Funds
Construction ELC Bldg. Lab	850,000	348,853	Private Donations & Other
Museum Renovation	350,000	0	State Funds
TOTAL	$10,995,000	$ 499,357	

NOTE 8 - AFFILIATED ORGANIZATIONS

Montana Tech of The University of Montana is a component unit of the State of Montana. These financial statements include only the activities, funds, and accounts of the College. Private nonprofit organizations affiliated with the College include the Montana Tech Foundation, the Montana Tech Booster Club, and the Montana Tech Alumni Association. The Foundation and Associations operate exclusively for the purposes of encouraging, promoting, and supporting educational programs, research, and scholarly pursuits, and athletics at or in connection with the College. In exchange, the College provides the Foundation with office space and an annually contracted fee; and the associations with office space and some related office expenses.

The amount of payments on the contract with the Foundation for fiscal years 1994-95 &1995-96 were $242,000 and $273,554 respectively. The estimated amount spent by the Foundation for the support of the College for the same periods of time were $1,470,580 and $1,837,072.

NOTE 9 - REPORTING ENTITY CHANGE

Effective July 1, 1994 the Montana Board of Regents of Higher Education approved the restructuring of the Montana University System. Beginning fund balances have been adjusted to include July 1, 1995 fund balances for the College of Technology - Butte.

NOTE 10 - SUBSEQUENT EVENTS

On October 30, 1996, The University of Montana issued $25,815,501 of Series D Revenue Bonds, including $4,410,000 for Montana Tech, with interest ranging from 4.20 to 5.375 percent. Bond proceeds of $3,845,259 will be used to construct a 100 bed accessible residence hall for students at Montana Tech of The University of Montana.

NOTE 11 - PRIOR YEAR ADJUSTMENTS

A prior period adjustment, in the amount of $548,969, was recorded on the colleges' endowment fund balance as of June 30, 1995. This was for a bequest previously made to the college but administered by the Montana Tech Foundation. This is to comply with a prior year audit recommendation.

Independent Auditor's Report & Western Montana College of The University of Montana Financial Statements

LEGISLATIVE AUDIT DIVISION

cott A. Seacat, Legislative Auditor
ohn W. Northey, Legal Counsel
ori Hunthausen, IT & Operations Manager

Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
James Gillett, Financial-Compliance Audit

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Balance Sheet of the Western Montana College of The University of Montana, a component unit of the state of Montana, as of June 30, 1996 and the related Statements of Changes in Fund Balance and the Statements of Current Funds Revenues, Expenditures and Other Changes for each of the two fiscal years ended June 30, 1996. The information contained in these financial statements is the responsibility of the university's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Western Montana College of The University of Montana as of June 30, 1996 and the changes in fund balances and the current funds revenues, expenditures, and other changes for each of the two fiscal years then ended in conformity with generally accepted accounting principles.

Respectfully submitted,

James Gillett

James Gillett, CPA
Deputy Legislative Auditor

November 14, 1996

Room 135, State Capitol Building PO Box 201705 Helena, MT 59620-1705
Phone (406) 444-3122 FAX (406) 444-9784 E-Mail lad@mt.gov

A COMPONENT UNIT OF THE STATE OF MONTANA
BALANCE SHEET
JUNE 30, 1996

	Current Funds				Plant Funds				
	Unrestricted	Restricted	Student Loans	Endowment Funds	Unexpended	Renewals & Replacements	Retirement of Indebtedness	Investment In Plant	Agency Fund
ASSETS									
Cash & Cash Equivalents	$585,361	$44,552	$13,289	$4,241	$30,711	$455,310	$1,206		$26,411
Accounts Receivable	$400,478	$101,552	$11,774		$92,093		$18		$1,751
Less Allowance for Doubtful Accounts	($15,888)		($3,857)		($952)				
Interest Receivable					$12,057	$2,732	$40		
Inventories	$296,569								
Prepaid Expenses	$162,008	$8,378				$60			
Due from Other Fund Groups	$588,106	$4,506	$58	$19	$140	$17,559			$312
Due from the Federal Government									
Loans Receivable			$1,129,403						
Less Loan Principal Cancelled			($595,360)						
Unamortized Bond Costs/Discount							$72,839		
Property Plant/Equipment & Other Assets								$12,708,640	
TOTAL ASSETS	$2,016,634	$158,988	$555,307	$4,260	$134,049	$475,661	$74,103	$12,708,640	$28,474
LIABILITIES AND FUND BALANCE									
Accounts Payable	$797,303	$50,306	$742		$15,283	$19,880			$1,334
Deferred Revenue	$255,000	$10,389							
Due to Federal Government		$15,871							
Due to Other Funds	$411,103	$74,981	$17,040		$90,990	$13,329			$3,257
Liability for Compensated Absences	$677,311								
Accrued Interest Payable							$9,047		
Loans Payable	$131,058								
Bonds Payable						$314,118	$76,801	$1,377,155	
Notes Payable					$608		$1,059	$406,392	
Installment Purchase Payable								$14,609	
Pension Payable	$30,807								
Property Held in Trust	$8,212								$23,883
TOTAL LIABILITIES	$2,310,794	$151,547	$17,782	$0	$106,881	$347,327	$86,907	$1,798,156	$28,474
FUND BALANCES	($294,160)	$7,441	$537,525	$4,260	$27,168	$128,334	($12,804)	$10,910,484	$0
TOTAL LIABILITIES AND FUND BALANCE	$2,016,634	$158,988	$555,307	$4,260	$134,049	$475,661	$74,103	$12,708,640	$28,474

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS.

WESTERN MONTANA COLLEGE OF THE UNIVERSITY OF MONTANA
A COMPONENT UNIT OF THE STATE OF MONTANA
STATEMENT OF CHANGES IN FUND BALANCE
FOR THE FISCAL YEAR ENDED JUNE 30, 1996

	Current Funds				Plant Funds			
	Unrestricted	Restricted	Student Loans	Endowment Funds	Unexpended	Renewals & Replacements	Retirement of Indebtedness	Investment In Plant
REVENUES AND OTHER ADDITIONS								
Unrestricted Current Fund	$7,323,081							
Federal Grants and Contracts		$1,500,136	$2,766					
State and Local Grants/Contracts		$10,485						
Private Gifts, Grants and Contracts		$524,152						
State Appropriations								
Land Grant Income					$214,907			
Interest and Recovery on Loans			$19,090					
Student Fees					$182,511			
Investment Income			$2,018	$241	$3,752	$45,082	$283	
Retirement of Indebtedness								$86,064
Expended for Plant Facilities								$2,393,288
Sales & Services of Auxiliary Enterprises	$2,364,837							
Sales & Services of Educational Activities		$13,118			$75			
Other Sources		$58						
TOTAL REVENUES AND OTHER ADDITIONS	$9,687,918	$2,047,949	$23,874	$241	$401,245	$45,082	$283	$2,479,352
EXPENDITURES AND OTHER DEDUCTIONS								
Educational and General	$7,344,315	$2,040,731						
Auxiliary Enterprises	$2,658,665							
Loan Cancellations			$2,815					
Operating & Administrative Costs			$13,925		$50,504	$10,720		
Expended for Plant Facilities					$30,000	$148,046		$1,396,874
Disposal & Amortization of Plant Assets							$1,584	$131,740
Retirement of Indebtedness						$4,814	$79,663	
Interest on Indebtedness						$1,548	$73,889	
TOTAL EXPENDITURES AND OTHER DEDUCTIONS	$10,002,980	$2,040,731	$16,740	$0	$80,504	$165,128	$155,136	$1,528,614
TRANSFERS AMONG FUNDS - ADDITIONS(DEDUCTIONS)								
Mandatory	($19,486)				($113,841)	($6,163)	$139,490	
Nonmandatory	$78,921	$150		($150)	($254,999)	$176,079		
TOTAL TRANSFERS/ADDITIONS(DEDUCTIONS)	$59,435	$150	$0	($150)	($368,840)	$169,916	$139,490	$0
NET INCREASE(DECREASE) FOR THE YEAR	($255,627)	$7,368	$7,134	$91	($48,099)	$49,870	($15,363)	$950,738
FUND BALANCE AT THE BEGINNING OF THE YEAR	($38,533)	$73	$530,391	$4,169	$75,269	$78,464	$2,559	$9,959,746
FUND BALANCE AT END OF YEAR	($294,160)	$7,441	$537,525	$4,260	$27,170	$128,334	($12,804)	$10,910,484

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS.

WESTERN MONTANA COLLEGE OF THE UNIVERSITY OF MONTANA
A COMPONENT UNIT OF THE STATE OF MONTANA
STATEMENT OF CHANGES IN FUND BALANCE
FOR THE FISCAL YEAR ENDED JUNE 30, 1995

	Current Funds		Plant Funds					
	Unrestricted	Restricted	Student Loans	Endowment Funds	Unexpended	Renewals & Replacements	Retirement of Indebtedness	Investment In Plant
REVENUES AND OTHER ADDITIONS								
Unrestricted Current Fund	$6,823,330							
Federal Grants and Contracts		$1,535,452						
State and Local Grants/Contracts		$21,607				$6,260		
Private Gifts, Grants and Contracts		$460,124						
Land Grant Income					$197,122			
Interest and Recovery on Loans			$16,037					
Student Fees					$190,690			
Investment Income			$2,151	$224	$9,087	$42,171	$40	
Retirement of Indebtedness								$105,248
Expended for Plant Facilities								$523,833
Sales & Services of Auxiliary Enterprises	$2,495,941							
Sales & Services of Educational Activities		$3,959			$1,626			
Other Sources		$40						
TOTAL REVENUES AND OTHER ADDITIONS	$9,319,271	$2,021,182	$18,188	$224	$398,525	$48,431	$40	$629,081
EXPENDITURES AND OTHER DEDUCTIONS								
Educational and General	$6,749,555	$2,025,369						
Auxiliary Enterprises	$2,592,882	$1,934						
Loan Cancellations			$2,216					
Operating & Administrative Costs			$4,340		$43,652	$9,970		
Expended for Plant Facilities					$64,367	$147,496		$55,416
Disposal & Amortization of Plant Assets							$2,551	$17,766
Retirement of Indebtedness						$4,865	$98,504	
Interest on Indebtedness						$445	$42,900	
TOTAL EXPENDITURES AND OTHER DEDUCTIONS	$9,342,437	$2,027,303	$6,556	$0	$108,019	$162,776	$143,955	$73,182
TRANSFERS AMONG FUNDS - ADDITIONS(DEDUCTIONS)								
Mandatory	($7,311)				($132,183)		$139,494	
Nonmandatory	$117,998	$150		($150)	($242,400)	$124,402		
TOTAL TRANSFERS/ADDITIONS(DEDUCTIONS)	$110,687	$150	$0	($150)	($374,583)	$124,402	$139,494	$0
NET INCREASE(DECREASE) FOR THE YEAR	$87,521	($5,971)	$11,632	$74	($84,077)	$10,057	($4,421)	$555,899
FUND BALANCE AT THE BEGINNING OF THE YEAR	($126,053)	$6,044	$518,759	$4,095	$159,346	$68,407	$6,980	$9,403,847
FUND BALANCE AT END OF YEAR	($38,532)	$73	$530,391	$4,169	$75,269	$78,464	$2,559	$9,959,746

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS.

WESTERN MONTANA COLLEGE OF THE UNIVERSITY OF MONTANA
A COMPONENT UNIT OF THE STATE OF MONTANA
STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES AND OTHER CHANGES
FOR THE FISCAL YEAR ENDED JUNE 30, 1996

	Current Funds		
	Unrestricted	Restricted	Total
REVENUES			
Tuition and Fees	$3,215,892		$3,215,892
State Appropriation	$3,718,351		$3,718,351
Federal Grants and Contracts	$46,533	$1,500,136	$1,546,669
State and Local Grants/Contracts	$41,380	$10,485	$51,865
Private Gifts, Grants and Contracts	$59,438	$524,152	$583,590
Investment Income	$15,170		$15,170
Sales & Services of Educational Activities	$205,643	$5,900	$211,543
Sales & Services of Auxiliary Enterprises	$2,364,837		$2,364,837
Other Sources	$20,674	$58	$20,732
TOTAL CURRENT REVENUES	$9,687,918	$2,040,731	$11,728,649
EXPENDITURES AND MANDATORY TRANSFERS			
Education and General			
Instruction	$3,261,312	$329,924	$3,591,236
Research		$23,335	$23,335
Public Service	$528,496	$391,052	$919,548
Academic Support	$417,745	$37,537	$455,282
Student Services	$1,093,304	$82,539	$1,175,843
Institutional Support	$1,045,406	$28,464	$1,073,870
Operations and Maintenance of Plant	$786,174	$16,415	$802,590
Scholarships and Fellowships	$211,878	$1,131,465	$1,343,343
EDUCATION AND GENERAL EXPENDITURES	$7,344,315	$2,040,731	$9,385,046
Auxiliary Enterprises Expenditures	$2,658,665	$0	$2,658,665
TOTAL EXPENDITURES	$10,002,980	$2,040,731	$12,043,711
OTHER TRANSFERS AND ADDITIONS/(DEDUCTIONS)			
Restricted Receipts Under Transfers to Revenue		$7,218	$7,218
Mandatory Transfers	($19,486)		($19,486)
Nonmandatory Transfers	$78,921	$150	$79,071
NET INCREASE (DECREASE) IN FUND BALANCE	($255,627)	$7,368	($248,259)

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS.

WESTERN MONTANA COLLEGE OF THE UNIVERSITY OF MONTANA
A COMPONENT UNIT OF THE STATE OF MONTANA
STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES AND OTHER CHANGES
FOR THE FISCAL YEAR ENDED JUNE 30, 1995

	Current Funds		
	Unrestricted	Restricted	Total
REVENUES			
Tuition and Fees	$2,876,737		$2,876,737
State Appropriation	$3,521,676		$3,521,676
Federal Grants and Contracts	$39,659	$1,541,573	$1,581,232
State and Local Grants/Contracts	$33,413	$21,607	$55,020
Private Gifts, Grants and Contracts	$54,743	$460,124	$514,867
Investment Income	$16,964		$16,964
Sales & Services of Educational Activities	$185,115	$3,959	$189,074
Sales & Services of Auxiliary Enterprises	$2,495,941		$2,495,941
Other Sources	$95,023	$40	$95,063
TOTAL CURRENT REVENUES	$9,319,271	$2,027,303	$11,346,574
EXPENDITURES AND MANDATORY TRANSFERS			
Education and General			
Instruction	$3,015,723	$363,593	$3,379,316
Research		$42,720	$42,720
Public Service	$480,675	$303,752	$784,427
Academic Support	$354,773	$68,791	$423,564
Student Services	$1,024,259	$53,868	$1,078,127
Institutional Support	$933,992	$11,605	$945,597
Operations and Maintenance of Plant	$750,790	$17,407	$768,197
Scholarships and Fellowships	$189,343	$1,163,633	$1,352,976
EDUCATION AND GENERAL EXPENDITURES	$6,749,555	$2,025,369	$8,774,924
Auxiliary Enterprises Expenditures	$2,592,882	$1,934	$2,594,816
TOTAL EXPENDITURES	$9,342,437	$2,027,303	$11,369,740
OTHER TRANSFERS AND ADDITIONS/(DEDUCTIONS)			
Restricted Receipts Over Transfers to Revenue		($6,121)	($6,121)
MandatoryTransfers	($7,311)		($7,311)
Nonmandatory Transfers	$117,998	$150	$118,148
NET INCREASE (DECREASE) IN FUND BALANCE	$87,521	($5,971)	$81,550

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

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WESTERN MONTANA COLLEGE OF THE UNIVERSITY OF MONTANA
A COMPONENT UNIT OF THE STATE OF MONTANA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1996

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

Western Montana College of The University of Montana (College) is a component unit of the State of Montana. The College's financial statements are included as a component part in the State's General Purpose Financial Statements which are presented in the Montana Comprehensive Annual Financial Report.

The College's financial statements are prepared in accordance with the American Institute of Certified Public Accountants' "College Guide Model." The College has considered all potential component units for financial reporting purposes and included all funds and account groups over which the College exercises oversight responsibility. Although the Western Montana College Foundation provides financial support to the College, the College does not exercise any financial or administrative control over the Foundation. Consequently, the Foundation is not considered a component unit for financial reporting purposes. See footnote 9 for a further description of the College's affiliation with the Foundation.

Basis of Accounting

The College's financial statements are prepared on the accrual basis of accounting, except there is no provision for depreciation expense. The statement of current funds revenue, expenditures, and other changes is a statement of financial activities of current funds related to the current reporting period. It does not purport to present the results of operations or the net income or loss for the period as would a statement of income or a statement of revenues and expenditures.

Fund Accounting

The accompanying financial statements are prepared in accordance with the principles of "fund accounting." These principles require the classification of resources for accounting and reporting purposes into fund groups according to the limitations or restrictions placed on their use. These separate funds are combined according to their common characteristics into fund groups and reflected by fund groups in the accompanying financial statements.

Descriptions of these fund groups are as follows:

CURRENT FUNDS - the current funds group includes economic resources expendable in performing the primary objectives of the institution, i.e., instruction, research, public service, academic support, student services, institutional support, operations and maintenance of plant, scholarships and fellowships and auxiliary activities. The current funds group has two basic distinct sub-groups: 1) unrestricted funds which have no external expenditure restrictions and 2) restricted funds which have expenditure restrictions defined by donors or other outside agencies.

LOAN FUNDS - these funds are available to aid in financing the education of qualifying students. Funds are provided by private and State and Federal government sources, with the majority provided by the Federal government.

ENDOWMENT FUNDS - these funds have specific donor or other outside agency restrictions prohibiting the expenditure of the principal. Generally, the principal must remain inviolate and invested to produce income. The income may or may not be restricted as to use.

PLANT FUNDS - these funds are used to account for the transactions relating to investment in College properties. Plant funds are separated into four distinct sub-groups with self-balancing accounts:

Renewal and Replacement Funds - utilized for long-term institutional asset maintenance.

Unexpended Plant - utilized for acquisition of long-term institutional assets.

Retirement of Indebtedness Funds - utilized for debt service charges and retirement of indebtedness on long-term institutional assets.

Investment in Plant - denotes the cost of long-term institutional assets and associated liabilities.

AGENCY FUNDS - the agency funds group is used to segregate assets held by the institution as a custodian or fiscal agent for other organizations or individuals.

Accounts Receivable

The accounts receivable reported consists primarily of amounts due from student accounts; and off-campus groups that have contracted with the College to use its housing and dining facilities. The Allowance for Doubtful Accounts is based upon a historical analysis of student accounts receivable collections.

Student Loans - Allowance for Doubtful Accounts

The Allowance for Doubtful Accounts represents the estimated amount of short-term loans issued by the College that are not collectible. This Allowance is based upon a historical analysis of student accounts receivable collections. The principal amount of short-term loans outstanding at June 30, 1996 is $11,116.

No provision for uncollectible loans issued through the Federal Perkins Loan Program is reflected in the accompanying financial statements. The following related statistics are reflected in the annual Fiscal Operations Report and Application provided to the Department of Education for the fiscal year ending June 30, 1996:

Cumulative Funds Advanced to Students	$2,877,340
Loan Principal Collected	$1,803,370
Qualifying Debt Cancellations	$ 417,789
Defaulted Loan Principal	$ 154,964

The College follows accounting practices for the Perkins Loan Program that conform with Federal regulations. The regulations do not provide for recognition of interest receivable, uncollectible loans or future loan principal reductions. Accordingly, the financial statements related to the Perkins Loan Program do not conform with generally accepted accounting principles. However, 90 percent of any interest receivable or uncollectible loans and 100 percent of all qualifying principal cancellations affect the Federal share of the fund balance. Consequently, the effect on the College's financial position is considered immaterial.

Inventories

Inventories include merchandise for the Bookstore, vending machines and Snack Bar, and supplies from the Business Office, Physical Plant and Food Service. All recorded inventories are stated at cost using the first-in/first-out method.

Employee Leave

Employees accumulate unused vacation and sick leave. Employees can accumulate and carry over a maximum of two years' vacation into a new calendar year. Unused accumulated vacation is redeemed in cash upon termination of employment. Upon termination, unused sick leave earned since July 1, 1971 is purchased from the employee at 25 percent value. The cash value of accumulated vacation, sick leave and related benefits was $677,311 at June 30, 1996. The liability for vacation and sick leave is recorded in the period in which the leave is earned.

The Chancellor, Deans and Director of Fiscal Affairs earn professional development leave prior to Fiscal year 1993. Unused accumulated professional development leave is fully redeemed upon termination. The cash value of this accumulated leave at June 30, 1996 was $15,698.

Unearned Income

Summer school revenues and related expenditures are deferred at June 30 and recorded as revenue and expenditures in the succeeding fiscal year.

NOTE 2 - BUDGETARY REPORTING

Appropriations

Appropriations in the Current Unrestricted Fund are made by the Legislature for operating purposes of Western Montana College. Expenditures against these appropriations are funded by corresponding funds at the State level. Unexpended or unencumbered balances in these appropriations revert to an account held by the Board of Regents. The Board of Regents may approve the use of these funds by the University System units for major and deferred maintenance expenditures, and equipment or fixed asset purchases in accordance with a long-term plan.

NOTE 3 - CASH/CASH EQUIVALENTS AND INVESTMENTS

Cash and cash equivalents reported by the College consist of cash deposited with the State Treasurer and the College's revenue bond trustee, and investments with a maturity of 90 days or less made through the Montana State Board of Investments' Short-term Investment Pool or the bond trustee. The cost and market value of these investments were equal at June 30, 1996. All cash and cash equivalents are risk category #1.

Cash and cash equivalents recorded at June 30, 1996 are as follows:

Current Funds:

Unrestricted:	
Cash Deposits	$518,361
Cash Equivalents:	
Short Term Investment Pool	$ 67,000
Total Cash/Cash Equivalents	$585,361
Restricted:	
Cash Deposits	$ 44,552

Loan Funds:	
Cash Deposits	$ 9,289
Cash Equivalents:	
Short Term Investment Pool	$ 4,000
Total Cash/Cash Equivalents	$ 13,289
Endowment Funds:	
Cash Deposits	$ 1
Cash Equivalents:	
Short Term Investment Pool	$ 4,240
Total Cash/Cash Equivalents	$ 4,241
Plant Funds:	
Unexpended:	
Cash Deposits	$ 9,711
Cash Equivalents:	
Short Term Investment Pool	$ 21,000
Total Cash/Cash Equivalents	$ 30,711
Renewal and Replacements:	
Cash Deposits	$ 13,633
Cash Equivalents:	
Short Term Investment Pool	$ 28,424
Money Market (Held by Trustee)	$413,253
Total Cash/Cash Equivalents	$455,310
Retirement of Indebtedness:	
Cash Held by Trustee	$ 1,061
Cash Equivalents:	
Money Market (Held by Trustee)	$,145
Total Cash/Cash Equivalents	$ 1,206
Agency Funds:	
Cash Deposits	$ 7,911
Cash Equivalents:	
Short Term Investment Pool	$ 18,500
Total Cash/Cash Equivalents	$ 26,411

NOTE 4 - LONG-TERM DEBT

At June 30, 1996 the College had a total of $2,337,998 in outstanding bonds, loans, notes, and pensions payable.

Bonds Payable

In November 1993 Western Montana College and The University of Montana jointly issued $48,050,000 in revenue bonds. The College received bond proceeds totaling $955,000. These funds financed the defeasance of the 1966 and 1967 Indentures totaling $514,000, provided $500,000 for remodeling the Student Union Building and covered the bond issuance costs. The principal balance due on these bonds at June 30, 1996 is $800,000.

The debt service reserve requirement related to this bond issue is $3,472,501. The College is responsible for approximately two percent of the reserve requirement. A surety bond was purchased to satisfy the debt service reserve requirement.

In January 1995 Western Montana College and The University of Montana jointly issued $7,556,463 in revenue bonds. The College received bond proceeds totaling $416,463. These funds financed additional remodeling of the Student Union Building and covered the bond issuance costs. The principal balance due on these bonds at June 30, 1996 is $416,463.

The debt service reserve requirement related to this bond issue is an additional $616,924. The College is responsible for approximately five and a half percent of the reserve requirement. A surety bond was purchased to satisfy the debt service reserve requirement.

In December 1995 Western Montana College and The University of Montana jointly issued $34,406,780 in revenue bonds. The College received bond proceeds totaling $551,612. These funds financed additional remodeling of the Student Union Building,improvements to the Physical Education Building and covered the bond issuance costs. The principal balance due on these bonds at June 30, 1996 is $551,612.

The debt service reserve requirement related to this bond issue is $3,440,678. A surety bond was purchased to satisfy the debt service reserve requirement.

The annual principal payments for all bond obligations are as follows:

Fiscal Year	1993A Indenture	1995B Indenture	1995C Indenture
1997	$ 65,000		
1998	$ 55,000	$ 10,000	$ 4,393
1999	$ 50,000	$ 20,000	$ 8,894
2000-2008	$590,000	$160,000	$104,257
2009-2016	$ 40,000	$226,463	$255,126
2017-2018			$178,942
TOTALS	$800,000	$416,463	$551,612

Notes Payable

The College received two loans through the Intercap Revolving Program one in June of 1995 for $59,311.77 and one in June of 1996 for $37,868.40. The proceeds of these loans were used to purchase computer equipment for the Microcomputer Lab-Library and a VAX server. Interest on the loan is calculated on a variable rate basis. The principal balance due at June 30, 1996 is $90,573.

Principal payments are:

Fiscal Year	Principal
1997	$ 23,012
1998	$ 33,723
1999	$ 25,570
2000	$ 8,268
TOTALS	$ 90,573

In May 1994 the College purchased a parcel of land and building that was adjacent to the campus. A portion of the purchase price was financed through a 15 year mortgage, with a 6.5 percent rate of interest. The principal balance at June 30, 1996 is $63,971. The annual payments are $7,311.48, with the final payment due May 5, 2009.

In May 1996 the College purchased a parcel of land and building that was adjacent to the campus. This purchase was financed through a 12 year mortgage, with a 6.22 percent rate of interest. The principal balance at June 30, 1996 is $105,000. The annual payments are $9247 with the final payment of $62,217 due 2008.

Loans Payable

The College owes the University of Montana-Missoula $131,058 for monies borrowed to pay the College's share of retirement for retiring employees. These loans are to be paid back in 10 equal annual payments starting the year after funds are borrowed. The final payment will be Fy 2006. This loan bears no interest.

The College received a $147,000 loan from the University of Montana-Missoula for the completion of the elevator project. Interest on the loan is calculated on the past year's average interest rate for the State of Montana's Short Term Investment Pool(STIP) with the first annual $16,000 payment due August 1, 1996 and the final payment due August 1, 2005.

Pension Payable

The pension payable of $30,807 represents the amount due from the College to the Public Employees' Retirement System at June 30, 1996 to purchase retirement incentive service for employees retiring on or before June 30, 1993. The College has elected to pay for this service on an installment basis. Interest is calculated on the unpaid balance at an annual rate of 8 percent.

Installment Purchase Payable

The College was obligated under two capital lease agreements at June 30,1996. These leases were for a duplicator and a garden tractor. The principal balance due on these leases at June 30,1996 is $14,609.

Fiscal year	Principal	Interest	Total
1997	$ 6,919	$ 944	$ 7,863
1998	$ 4,506	$ 396	$ 4,902
1999	$ 3,183	$ 84	$ 3,267

NOTE 5 - INVESTMENT IN PLANT

Physical plant, equipment, and library books are stated at cost or historically based appraisal values. Depreciation on physical plant and equipment is not recorded. Equipment costing less than $1,000 is excluded from the financial statements.

Property, Plant, Equipment and Other Assets at June 30, 1996 consisted of the following:

Intangible Assets	$ 14,528
Land	$ 125,677
Buildings and Improvements	$ 9,859,362
Equipment	$ 2,014,465
Library Books	$ 666,608
Museum and Art Collection	$ 28,000
Total	$12,708,640

NOTE 6 - RETIREMENT PROGRAMS

All permanent faculty and staff members working more than half-time must enroll in an approved retirement system. Beginning in Fiscal Year 1994 new faculty members and professional staff of the Montana University System, not currently enrolled in the Montana Public Employees' Retirement System (PERS) or the Teachers' Retirement System (TRS), must enroll in the Optional Retirement Program (ORP). This Program is available through the Teachers Insurance and Annuity Association - College Retirement Equities Fund (TIAA-CREF). Prior to Fiscal Year 1994 new faculty members and professional staff had the option of enrolling in the ORP or the TRS. The University System makes a similar employer contribution to each plan. All other employees must enroll in and are provided retirement benefits through the PERS.

ORP- was established in January of 1988 under Title 19, Chapter 21, MCA, and is underwritten by the Teachers' Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF). The ORP is a defined contribution plan. The benefits at retirement depend upon the amount of contributions, amount of investment gains and losses and the individual contract with TIAA-CREF. WMC records employee/employer contributions, and remits monies to the Commissioner of Higher Education. The Commissioner's Office then transfers the contributions to TIAA-CREF. Individuals are immediately vested with contributions.

TRS- This mandatory system established in 1937 and governed by Title 19, Chapter 20, MCA, provides retirement services to all persons employed as teachers or professional staff of any public elementary or secondary school, vocational-technical center or unit of the University System. The plan issues publicly available annual reports that include financial statements and required supplemental information for the plan. These reports may be obtained from the following:

Teachers Retirement Division
P O Box 200139
1500 Sixth Avenue
Helena, MT 59620-0139
406-444-3134

PERS-This mandatory system established in 1945 and governed by Title 19, Chapter 3, MCA, provides retirement services to substantially all public employees. The plan issues publicly available annual reports that include financial statements and required supplemental information for the plan. These reports may be obtained from the following:

Public Employees Retirement Division
P O Box 200131
1712 Ninth Avenue
Helena, MT 59620-0131
406-444-3154

Both TRS and PERS plans are cost sharing multiple employer defined benefit retirement plans. Upon retirement, the monthly annuity is calculated by using a formula that includes compensation and years of creditable service as variables.

Retirement Information as of June 30, 1996

	PERS	TRS	ORP
Covered Payroll	$1,486,375	$1,615,748	$1,504,973
Total Payroll	$4,987,717	$4,987,717	$4,989,717
Employer Contributions	$118,454	$158,365(b)	$74,586
Percent of Covered Payroll	7.969	9.801	4.956
Required by Statute	6.700	7.470	4.956
			TRS 2.503
Employee Contributions (a)			
Actual	$119,870	$113,813	$106,010
Required by Statute	$ 99,587	$113,813	$106,010

Percent of Payroll Covered			
Actual	8.065	7.044	7.044
Required by Statute	6.700	7.044	7.044

(a) Actual employee contributions include voluntary payments by employees in addition to those required by statute.

(b) The College contributed $37,669 or 2.503 percent of the covered payroll for ORP participants to the TRS to amortize past service unfunded liability in accordance with Title 19, chapter 21, MCA.

Retirement Information as of June 30, 1995

	PERS	TRS	ORP
Covered Payroll	$1,409,233	$1,665,191	$1,119,187
Total Payroll	$5,149,652	$5,149,652	$5,149,652
Employer Contributions	$94,419	$153,168(b)	$56,247
Percent of Covered Payroll	6.700	9.198	5.030
Required by Statute	6.700	7.470	4.956
			TRS 2.503
Employee Contributions (a)			
Actual	$95,826	$117,651	$79,936
Required by Statute	$94,419	$117,296	$78,835
Percent of Payroll Covered			
Actual	6.800	7.065	7.142
Required by Statute	6.700	7.044	7.044

(a) Employee contributions include voluntary payments by employees in addition to those required by statute.

(b) The College contributed $28,405 or 2.538 percent of the covered payroll for ORP participants to the TRS to amortize past service unfunded liability in accordance with Title 19, chapter 21, MCA.

Retirement Information as of June 30, 1994

	PERS	TRS	ORP
Covered Payroll	$1,343,415	$1,716,974	$ 977,555
Total Payroll	$4,989,587	$4,989,587	$4,989,587
Employer Contributions (a)			
Actual	$95,609	$194,248	$47,733
Required thru June '93		1,609(b)	1,056
Required after June '93	$90,007	$ 23,574(b)	$46,677
Required thru Dec. '93		$ 64,746	
Required after Dec. '93		$ 63,416	

Percent of Payroll Covered			
Actual	7.117	11.342	
Required thru June '93		4.503(b)	2.956
Required after June '93	6.700	2.503(b)	4.956
Required thru Dec. '93		7.459	
Required after Dec. '93		7.470	
Employee Contributions (c)			
Actual	$90,844	$161,356	$68,859
Required by Statute	$90,007	$120,944	$68,859
Percent of Payroll Covered			
Actual	6.762	9.421	7.044
Required by Statute	6.700	7.044	7.044

(a) The College contributed additional funds for individuals retiring under the Retirement Incentive Program and for individuals requesting credit for previous service provided while not covered under one of the retirement programs.

(b) The College contributed $25,183 for ORP participants to the TRS to amortize past service unfunded liability in accordance with Title 19, chapter 21, MCA.

(c) Actual employee contributions include voluntary payments by employees in addition to those required by statute.

NOTE 7 - NEGATIVE FUND BALANCE

The negative fund balance in the Current Unrestricted Fund group of ($294,160) is primarily due to the unfunded Liability for Compensated Absences. This liability, totaling $677,311, reflects the cost of compensating employees for vacation and sick leave accrued as of June 30, 1996. Funding for this liability is primarily provided by revenue generated in the period during which compensation for leave is actually paid.

NOTE 8 - COMMITMENTS

The College has a contractual agreement with the Department of Administration to pay a portion of the "1985 Series A General Obligation Bond." The balance due at June 30, 1996 is $43,550. The bond obligation is recorded on the Department of Administration's accounting records.

The bonds related to the "1985 Series A General Obligation Bond" were originally issued to finance the costs of constructing and equipping a swimming pool addition to the physical education facility. The bonds were issued on July 24, 1985 and the proceeds totaled $1,400,000. In August 1989 the swimming pool project was discontinued and the general obligation bond proceeds were reappropriated. Under the new agreement $280,000 was appropriated to the College for planning the remodeling of the

Student Union Building and for replacing the Physical Education Building roof. The balance of the bond proceeds were reappropriated to other agencies. While the bonds remain the general obligation of the State of Montana, the Board of Regents has entered into an agreement which obligates the College to pay the State Treasurer an amount sufficient to pay the principal and interest due on the bond proceeds allocated to the College.

The initial bond payment was due August 25, 1985, and continues on the 25th of each month thereafter until bond maturity on August 1, 2000. Principal and interest paid by Western Montana College in Fiscal Year 1996 was $10,773. Revenues derived from land grant income, building fees, and usage charges are pledged to pay the obligation.

NOTE 9 - AFFILIATED ORGANIZATIONS

The College is a component unit of the State of Montana and administratively attached to The University of Montana - Missoula. These financial statements include only the funds and account groups of the College.

The College is also affiliated with the Western Montana College Foundation, a private nonprofit organization. The Foundation operates solely to provide support for the College. Services provided for the College by the Foundation include fund raising, grant development, planning and conducting development campaigns, and providing consultation on development activities to promote the College. In return for these services the College provides office space and utilities for the Foundation staff and access to the College computer staff and facilities. The College's Director of Development serves as the Executive Director of the Foundation. The Foundation pays 24 percent of the total salary for this position. This contribution was $20,166 and $15,612 in Fiscal Years 1995 and 1996, respectively.

In Fiscal Years 1995 and 1996 the Foundation provided the College with $338,222 and $551,394, respectively, for scholarships, athletics, and educational and public service programs.

In August 1994 the Western Montana College Foundation transferred title to the Birch Creek Bender Center to the College. The Bender Center is a multi-purpose meeting, dining and sleeping facility that was constructed by the Foundation with the understanding that ownership would pass to the College upon completion. The facility sits on U.S. Forest Service land which is provided for use through a beneficial-use permit. The College has used the facility for summer outdoor education courses, art courses, geology camps and various workshops. In 1992 the Foundation reported the cost of constructing the facility at $228,000.

NOTE 10 - SUBSEQUENT EVENTS

Subsequent to June 30, 1996, the College, in conjunction with other units of The University of Montana, issued $25,815,501 Series D 1996 Revenue Bonds in October 1996. The College received approximately $4,885,000 from this issue; $4,550,000 to fund the renovation and remodeling of all the residence halls;$200,000 for the renovation of family housing and $135,000 for land acquisition. The college will also receive a portion of the $7,000,000 designated for classroom and laboratory renovations.The college will pay a portion of the surety bond established for the Debt Reserve Requirement and bond issuance costs.

U of M -- Helena

Independent Auditor's Report & Helena College of Technology of The University of Montana Financial Schedules

LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
John W. Northey, Legal Counsel
Tori Hunthausen, IT & Operations Manager

Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
James Gillett, Financial-Compliance Audit

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the Schedule of Changes in Fund Balances and Property Held in Trust, the Schedule of Total Revenues, Transfers In and Other Additions, and the Schedule of Total Expenditures, Transfers Out and Other Reductions by Object by Program, of the Helena College of Technology of The University of Montana a component unit of the state of Montana, for the fiscal year ended June 30, 1996. The information contained in these financial schedules is the responsibility of the university's management. Our responsibility is to express an opinion on these financial schedules based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1, the financial schedules are recorded on a comprehensive basis of accounting other than generally accepted accounting principles. The schedules are not intended to be a complete presentation and disclosure of the university's assets and liabilities.

In fiscal year 1995-96, the university did not record certain expenditures in the Unexpended Plant Fund. As a result, fund balance is understated and nonbudgeted expenditures are overstated by $663,821 on the Schedule of Changes in Fund Balances and Property Held in Trust. In addition, expenditures in the Plant Program on the Schedule of Total Expenditures, Transfers Out and Other Reductions by Object by Program are overstated by the same amount.

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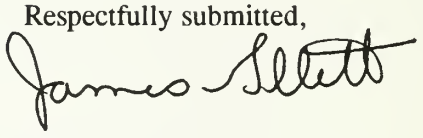
In our opinion, except for the effects of the items discussed in paragraph 4, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balances of the Helena College of Technology of The University of Montana for the fiscal year ended June 30, 1996, in conformity with the basis of accounting described in note 1.

Respectfully submitted,



James Gillett, CPA
Deputy Legislative Auditor

October 17, 1996

HELENA COLLEGE OF TECHNOLOGY OF THE UNIVERSITY OF MONTANA
SCHEDULE OF CHANGES IN FUND BALANCES AND PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 1996

	Current Operating Fund	Current Restricted Fund	Current Designated Fund	Current Auxiliary Fund	Loan Fund	Endowment Fund	Unexpended Plant Fund	Renewal & Replacement Plant Fund	Retirement of Indebtedness Plant Fund	University Agency Fund
FUND BALANCE: July 1, 1995	$ (274,752)	$ 5,668	$ 175,867	$ 79,014	$ 8,668	$ 49,801	$ 43,519	$ 222,507	$ 29,767	
PROPERTY HELD IN TRUST: July 1, 1995										$ 57
ADDITIONS										
Budgeted Revenues & Transfers In	2,566,743	558,646	444,709	151,858			26,440	73,069	135	
Nonbudgeted Revenues & Transfers In			5,652	1,789	4	2,901	64,187		19	
Prior Year Revenue Adjustments		1,339	96							
Direct Entries to Fund Balance							30,000			
Additions to Property Held in Trust										16,209
Total Additions	2,566,743	559,985	450,457	153,647	4	2,901	120,627	73,069	154	16,209
REDUCTIONS										
Budgeted Expenditures & Transfers Out	2,532,692	560,248	457,225	139,246				154,628	78,645	
Nonbudgeted Expenditures & Transfers Out	(57,243)	786	8,195	(406)	3,778	2,300				
Cash Transfers Out							714,808			
Prior Year Expenditure Adjustments	(5,805)	1,194	5,561	(61)						
Nonbudgeted Prior Year Expenditure Adjustments			839	1,947						
Reductions to Property Held in Trust										13,861
Total Reductions	2,469,644	562,228	471,820	140,726	3,778	2,300	714,808	154,628	78,645	13,861
FUND BALANCE: June 30, 1996	$ (177,653)[1]	$ 3,425	$ 154,504	$ 91,935	$ 4,894	$ 50,402	$ (550,662)	$ 140,948	$ (48,724)	
PROPERTY HELD IN TRUST: June 30, 1996										$ 2,405

[1] See note 2 on page D-3.

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules beginning on page D-11.

HELENA COLLEGE OF TECHNOLOGY OF THE UNIVERSITY OF MONTANA
SCHEDULE OF TOTAL REVENUES, TRANSFERS IN & OTHER ADDITIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 1996

	Current Operating Fund	Current Restricted Fund	Current Designated Fund	Current Auxiliary Fund	Loan Fund	Endowment Fund	Unexpended Plant Fund	Renewal & Replacement Plant Fund	Retirement of Indebtedness Plant Fund	Total
TOTAL REVENUES BY CLASS										
Tuition and Fees	$ 743,455		$ 283,456				$ 61,681	$ 61,042		$ 1,149,634
State Appropriations	1,813,542									1,813,542
Federal Grants and Contracts	5,955	$ 543,769								549,724
State and Local Grants/Contracts		8,916	6,758							15,674
Private Gifts, Grants and Contracts		5,000	3,433							8,433
Investment Income				$ 1,789	$ 4	$ 2,901	28,946	12,027	$ 154	45,821
Sales and Services			149,103	151,858						300,961
Indirect Cost Recoveries	3,791									3,791
Other Sources		2,300	7,707							10,007
Total Revenues	2,566,743	559,985	450,457	153,647	4	2,901	90,627	73,069	154	3,897,587
Less: Nonbudgeted Revenues			5,652	1,789	4	2,901	64,187		19	74,552
Prior-Year Revenue Adjustments		1,339	96							1,435
Actual Budgeted Revenues	2,566,743	558,646	444,709	151,858	0	0	26,440	73,069	135	3,821,600
Estimated Revenues	2,656,614	819,000	578,000	200,000			32,285	100,000	100,000	4,485,899
Budgeted Revenues Over(Under) Estimated	$ (89,871)	$ (260,354)	$ (133,291)	$ (48,142)	$ 0	$ 0	$ (5,845)	$ (26,931)	$ (99,865)	$ (664,299)
BUDGETED REVENUES OVER(UNDER) ESTIMATED BY CLASS										
Tuition and Fees	$ (138,871)									$ (138,871)
State Appropriations		$ 500								500
Federal Grants and Contracts		(226,641)								(226,641)
State and Local Grants/Contracts										0
Private Gifts, Grants and Contracts										0
Investment Income										0
Sales and Services				$ (48,142)						(48,142)
Indirect Cost Recoveries										0
Other Sources										0
Revenues estimated not allocated by class	49,000	(34,213)	(133,291)				$ (5,845)	$ (26,931)	$ (99,865)	(251,145)
Budgeted Revenues Over(Under) Estimated	$ (89,871)	$ (260,354)	$ (133,291)	$ (48,142)	$ 0	$ 0	$ (5,845)	$ (26,931)	$ (99,865)	$ (664,299)

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules beginning on page D-11.

HELENA COLLEGE OF TECHNOLOGY OF THE UNIVERSITY OF MONTANA
SCHEDULE OF TOTAL EXPENDITURES, TRANSFERS OUT & OTHER REDUCATIONS BY OBJECT BY PROGRAM
FOR THE FISCAL YEAR ENDED JUNE 30, 1996

PROGRAM EXPENDITURES BY OBJECT	Instruction	Public Service	Academic Support	Student Services	Institutional Support	Plant Operation & Maintenance	Scholarships & Fellowships	Transfers	Auxiliary Enterprises	Gaap Adjustments	Recharge Service Programs	Student Loans	Plant Program	Total
Personal Services														
Salaries	$ 1,223,813	$ 2,839	$ 173,326	$ 163,443	$ 156,593	$ 103,768	$ 6,758		$ 8,387				$ 10,221	$ 1,849,148
Hourly Wages	49		11,558	(12)		2,187	38,601							52,383
Employee Benefits	256,853	161	47,163	41,059	34,290	34,908	3,072		2,541				2	420,049
Personal Services-Other										$ (51,608)				(51,608)
Total	1,480,715	3,000	232,047	204,490	190,883	140,863	48,431		10,928	(51,608)			10,223	2,269,972
Operating Expenses														
Services	109,368		7,480	23,529	28,288	21,115			6,951		$ 1,032		2,170	199,933
Supplies & Materials	127,013	167	20,203	12,889	2,257	14,458			426		302		56,363	234,078
Communications	8,200		6,204	31,933	667	23,845			181					71,030
Travel	9,077		5,479	6,993	8,331	102								29,982
Rent	1,547		1,716	1,100		8,792								13,155
Utilities	2,291		847			94,776			864					98,778
Repair & Maintenance	19,919	962	11,043	876	46	48,475			636				75,199	157,156
Other Expenses	16,776	28	11,548	10,554	5,819	(25,374)	14,293		177		4,682	$ 3,778	501	42,782
Goods Purchased for Resale	92,161			6,608					121,126					219,895
Total	386,352	1,157	64,520	94,482	45,408	186,189	14,293		130,361		6,016	3,778	134,233	1,066,789
Equipment and Intangible Assets														
Equipment	12,309			7	1,890								13,495	27,701
Total	12,309			7	1,890								13,495	27,701
Grants														
From State Sources							8,916							8,916
From Federal Sources							410,186							410,186
From Other Sources				327			6,600							6,927
Total				327			425,702							426,029
Transfers														
Nonmandatory Transfers								$ 2,300						2,300
Total								2,300						2,300
Debt Service														
Bonds													75,322	75,322
Leases	15,656													15,656
Total	15,656												75,322	90,978
Total Program Expenditures	$ 1,895,032	$ 4,157	$ 296,567	$ 299,306	$ 238,181	$ 327,052	$ 488,426	$ 2,300	$ 141,289	$ (51,608)	$ 6,016	$ 3,778	$ 233,273	$ 3,883,769
PROGRAM EXPENDITURES BY FUND														
Unrestricted Fund	$ 1,381,456		$ 280,024	$ 286,640	$ 238,181	$ 325,521	$ 15,065			$ (57,243)				$ 2,469,644
Restricted Fund	81,814	$ 4,157	7,337			1,531	466,603			786				562,228
Designated Fund	428,100		9,206	12,666			6,758		$ 2,104	6,970	$ 6,016			471,820
Auxiliary Fund	3,662								139,185	(2,121)				140,726
Loan Fund												$ 3,778		3,778
Endowment Fund								$ 2,300						2,300
Renewal and Replacement Fund													$ 154,628	154,628
Retirement of Indebtedness Fund													78,645	78,645
Total Program Expenditures	1,895,032	4,157	296,567	299,306	238,181	327,052	488,426	2,300	141,289	(51,608)	6,016	3,778	233,273	3,883,769
Less: Nonbudgeted Expenditures	1,225							2,300		(49,894)		3,778		(42,591)
Prior Year Expenditure Adjustments	9,079	1,339	(2,487)	(1,789)	(735)	190	(144)		(61)	(1,714)				3,678
Budgeted Expenditures	1,884,728	2,818	299,054	301,095	238,916	326,862	488,570	0	141,350	0	6,016	0	233,273	3,922,682
Actual Budget Authority	2,040,245	4,000	308,469	315,593	252,497	357,810	735,000		215,000		10,000		571,251	4,809,865
Unspent Budget Authority	$ 155,517	$ 1,182	$ 9,415	$ 14,498	$ 13,581	$ 30,948	$ 246,430	$ 0	$ 73,650	$ 0	$ 3,984	$ 0	$ 337,978	$ 887,183
UNSPENT BUDGET AUTHORITY BY FUND														
Unrestricted Fund	$ 47,806		$ 958	$ 2,164	$ 13,581	$ 27,479	$ 1,935							$ 93,923
Restricted Fund	18,186	$ 1,182	2,663			3,469	236,253							261,753
Designated Fund	89,525		5,794	12,334			8,242		$ 12,896		$ 3,984			132,775
Auxiliary Fund									60,754					60,754
Renewal and Replacement Fund													$ 46,623	46,623
Retirement of Indebtedness Fund													291,355	291,355
Unspent Budget Authority	$ 155,517	$ 1,182	$ 9,415	$ 14,498	$ 13,581	$ 30,948	$ 246,430	$ 0	$ 73,650	$ 0	$ 3,984	$ 0	$ 337,978	$ 887,183

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules beginning on page D-11.

Helena College of Technology of The University of Montana A Component Unit of the State of Montana Notes to the Financial Schedules

For the Fiscal Year Ended June 30, 1996

1. Summary of Significant Accounting Policies

Basis of Accounting

The college uses accrual basis accounting, except for depreciation for its funds. Under the accrual basis, as defined by state accounting policy, the college records revenues in the accounting period earned, if measurable and records expenses in the period incurred, if measurable.

Expenditures and expenses may include: entire budgeted service contracts even though the college received the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

Basis of Presentation

The financial schedule format is in accordance with the policy of the Legislative Audit Committee. Effective July 1, 1996, the Legislative Audit Committee approved a new financial schedule presentation for inclusion in agency audit reports. The new format includes nonbudgeted revenues and expenditures activity, as well as all prior year adjustments in all financial schedules presented. In addition, financial activity for agency funds, if applicable to the agency, is included in the Schedule of Changes in Fund Balances and Property Held in Trust. The financial schedules in this report are presented according to the revised format.

The financial schedules are prepared from the Statewide Budgeting and Accounting System without adjustment except for the agency funds which are adjusted to reflect the additions and reductions to property held in trust. Accounts are organized in funds according to state law. The college uses the following funds:

Current Funds - includes economic resources expendable for instruction, research, public service, and the allied support

operations and programs. The financial activities of the Current Fund are subdivided into the following four funds:

Operating - funds for the general operations which are free of restrictions, except those imposed by the legislature.

Restricted - funds for financing operations for purposes specified by sources external to the Board of Regents and the legislature, such as the federal Carl Perkins and student financial aid programs.

Designated - funds for the general operations which have been internally restricted, such as recharge operations, instructional materials fees, and student government. This fund is separately classified in order to distinguish the specific type of service being provided to various departments and is supported by internal charges to user departments.

Auxiliary - funds for providing goods and services primarily to students, faculty, or staff through a fee charged the consumer which is directly related to, but does not necessarily equal, the cost of the goods or services provided. The revenues are derived directly from the auxiliary bookstore and resale operations.

Loan Funds - accounts for resources made available for loans to students for purposes related to education. Funds for the loans are provided by state, federal and private sources.

Endowment Funds - accounts for donated resources, the income from which has to be used for the purpose specified by the donor.

Plant Funds - accounts for the financial resources allocated for capital outlay purposes or to retire long-term debts associated with construction or acquisition of fixed assets. The financial activities of the Plant Fund are subdivided into the following funds:

Unexpended Plant - accounts for unexpended resources from bond proceeds which are being used to finance the construction of the student union building.

Renewal and Replacement - accounts for the funds needed to provide for the renewal and replacement of the Plant Fund assets.

Retirement of Indebtedness - accounts for debt service charges.

Investment in Plant - accounts for all long-lived assets in the service of the college as well as associated liabilities. This subfund is not presented on the financial schedules.

Agency Funds - includes assets held by the college as a custodian or fiscal agent for other organizations or individuals.

Revenue Classifications

The revenue classifications used follow generally accepted practices for colleges and universities.

2. Annual and Sick Leave

Employees at the college accumulate both annual and sick leave. The college pays employees for 100 percent of unused annual and 25 percent of unused sick leave credits upon termination. Teachers and administrators, upon termination, are paid 50 percent of unused accumulated sick leave earned prior to July 1, 1989. The college absorbs expenditures for termination pay in its annual operational costs. At June 30, 1996, the college had a liability of $174,689, which contributes to the negative fund balance in the Current Operating Fund

3. Pension Plan

Employees are covered by the Montana Public Employees' Retirement System (PERS), the Teachers' Retirement System (TRS) and the Optional Retirement Program (ORP). ORP started in January of 1988 and is underwritten by the Teacher's Insurance and Annuity Association - College Retirement Equities Fund (TIAA-CREF). Effective July 1, 1993, the ORP became the mandatory retirement plan for new faculty. The college's contribution to PERS, TRS and ORP was $23,637, $92,061, and $8,260, respectively, in fiscal year 1995-96.

4. Bond Debt Outstanding

In January 1995, the Board of Regents issued Facilities Improvement Revenue Bonds, Series B, 1995. In December 1995, the Board of Regents issued Facilities Improvement Revenue Bonds, Series C, 1995. The college financed the construction of its student union building with a portion of bond proceeds in the amount of $620,000 and $146,636, respectively. These proceeds are primarily recorded in the Unexpended Plant Subfund. Future scheduled bond payments for the college are as follows:

1995 Series B:

Fiscal Year Ending June 30	Principal	Interest	Total
1997	$ 30,000	$ 33,680	$ 63,680
1998	40,000	32,070	72,070
1999	40,000	30,010	70,010
2000	40,000	27,870	67,870
2001	40,000	25,680	65,680
2002-2009	400,000	104,539	504,539

1995 Series C:

Fiscal Year Ending June 30	Principal	Interest	Total
1997	$ 0	$ 7,271	$ 7,271
1998	1,168	7,271	8,439
1999	2,364	7,199	9,563
2000	2,535	7,100	9,635
2001	2,621	6,990	9,611
2002-2017	137,948	84,350	222,298

The University of Montana Response

The University of
Montana

Office of the President
The University of Montana
Missoula, Montana 59812-1291
(406) 243-2311, FAX (406) 243-2797

The University of Montana Missoula

Montana Tech of The University of Montana Butte

Western Montana College of The University of Montana Dillon

Helena College of Technology of The University of Montana Helena

26 March 1997

Mr. Scott A. Seacat
Legislative Auditor
Legislative Audit Division
Room 135 State Capitol
P. O. Box 201705
Helena, MT 59620-1705

Dear Mr. Seacat:

I have enclosed The University of Montana's response to the Financial-Compliance Audit report for the two fiscal years ended 30 June 1996. We concur with all recommendations and will address them as outlined in our response.

We appreciate the cooperative efforts made by the audit team and thank those involved for their assistance. I believe the coordinated efforts of both your staff and The University of Montana personnel made this audit more efficient and effective for all those involved.

Sincerely,

George M. Dennison,
President

Enclosure

c: K. Burgmeier, Director, Internal Audit
A. Capdeville, Dean, Helena College of Technology of The University of Montana
R. Crofts, Commissioner of Higher Education
L. Norman, Chancellor, Montana Tech of The University of Montana
S. Stearns, Chancellor, Western Montana College of The University of Montana
J. Todd, Vice President for Administration and Finance

THE UNIVERSITY OF MONTANA

Response to Legislative Audit Division
Financial-Compliance Audit
For Two Fiscal Years Ended June 30, 1996

RECOMMENDATION #1

WE RECOMMEND THE UNIVERSITY OF MONTANA REVISE PROCEDURES AT UM-TECH TO ENSURE FINANCIAL AID FEDERAL FUNDS DRAW DOWNS AND DISBURSEMENTS ARE MADE NO MORE THAN TEN DAYS BEFORE THE FIRST DAY OF THE SEMESTER.

RESPONSE

THE UNIVERSITY OF MONTANA CONCURS WITH THE RECOMMENDATION.
Effective August 1996, UM-Tech personnel revised procedures to ensure compliance with financial aid draw down regulations.

RECOMMENDATION #2

WE RECOMMEND THE UNIVERSITY OF MONTANA WORK WITH THE OFFICE OF THE COMMISSIONER OF HIGHER EDUCATION TO ENSURE STATE MATCHING FUNDS ARE DEPOSITED TO THE PERKINS LOAN PROGRAM AT THE UM-TECH CAMPUS IN ACCORDANCE WITH FEDERAL REGULATIONS.

RESPONSE

THE UNIVERSITY OF MONTANA CONCURS WITH THE RECOMMENDATION.
Effective Fall semester 1997, personnel at UM-Tech will implement procedures to ensure depositing of state matching funds in correlation with the request of federal Perkins Loan funds.

RECOMMENDATION #3

WE RECOMMEND THE UNIVERSITY OF MONTANA BASE THE UM-TECH COST OF EDUCATION AMOUNTS ON DOCUMENTED COSTS OF EDUCATION IN COMPLIANCE WITH FEDERAL REGULATIONS.

RESPONSE

THE UNIVERSITY OF MONTANA CONCURS WITH THE RECOMMENDATION.
UM-Tech personnel will document the process they utilize to calculate the cost of attendance. Effective the 1997-98 academic year, the UM-Tech Financial Aid Office will maintain all appropriate documentation.

RECOMMENDATION #4

WE RECOMMEND THE UNIVERSITY OF MONTANA RECORD CONSTRUCTION AND BOND ACTIVITY AT THE HELENA COLLEGE OF TECHNOLOGY IN ACCORDANCE WITH STATE ACCOUNTING POLICY.

RESPONSE
THE UNIVERSITY OF MONTANA CONCURS WITH THE RECOMMENDATION.
College personnel corrected the error noted in the report. As result of revenue bond audit recommendations, effective April 1997, the President of The University of Montana designated that Missoula campus personnel provide technical support and direction for all other campuses bond issues and activity.

RECOMMENDATION #5
WE RECOMMEND THE UNIVERSITY OF MONTANA ESTABLISH WRITTEN CONTRACTS OR AGREEMENT FOR UM-WESTERN MONTANA COLLEGE WHEN OTHER ORGANIZATIONS USE UNIVERSITY PROPERTY OR MANAGE SEGMENTS OF THE UNIVERSITY'S FINANCIAL ACTIVITIES.

RESPONSE
THE UNIVERSITY OF MONTANA CONCURS WITH THE RECOMMENDATION.
UM-Western personnel will execute contracts for the activities referred to in the report by 1 July 1997 and any further appropriate University commitments.

RECOMMENDATION #6
WE RECOMMEND THE UNIVERSITY OF MONTANA ESTABLISH PROCEDURES TO ENSURE COMPLIANCE WITH THE FEDERAL STUDENT RIGHT-TO-KNOW AND CAMPUS SECURITY ACT.

RESPONSE
THE UNIVERSITY OF MONTANA CONCURS WITH THE RECOMMENDATION.
Internal Audit personnel will conduct further review and follow-up on all The University of Montana campuses to ensure the development and implementation of appropriate procedures ensuring compliance with the Student Right to Know and Campus Security Act regulations. Campus personnel will develop and start procedures by September 1997.

RECOMMENDATION #7
WE RECOMMEND THE UNIVERSITY OF MONTANA ESTABLISH ACCOUNTING CONTROL OVER THE CHILD DAYCARE SERVICE AT UM-WESTERN.

RESPONSE
THE UNIVERSITY OF MONTANA CONCURS WITH THE RECOMMENDATION.
UM-Western personnel revised procedures, effective January 1997, to ensure accountability and improve revenue collection controls for the Early Childhood Education Center. Now Business Office personnel collect all payments for the Early Childhood Education Center services. Business Services personnel will also perform periodic verification of billing amounts.

RECOMMENDATION #8
WE RECOMMEND THE UNIVERSITY OF MONTANA ESTABLISH CONTROLS TO ENSURE DEPOSITS ARE MADE INTACT AND THE COMPOSITION OF DEPOSITS ARE MONITORED BY UM-WESTERN AND UM-TECH.

RESPONSE
THE UNIVERSITY OF MONTANA PARTIALLY CONCURS WITH THE RECOMMENDATION. The University of Montana concurs that campuses must ensure appropriate cash controls. Current State accounting policies allow that deposits which we have made intact can have the compositions altered when necessary. Also, monitoring the compositions of deposits may not always be cost beneficial for all cash collection areas. Where it is appropriate and beneficial, we will monitor the composition of deposits.

UM-Western Bookstore and Cafeteria personnel have been instructed on the importance of cash controls and accountability of the revenue. In both departments, cashiering personnel received additional training and instruction on recording cash, check or charge transactions. At both locations modified procedures were implemented March 1997. Internal Audit personnel will review the procedures to ensure proper controls, accountability, and reasonableness.

UM-Tech personnel will review the authorized change fund for the bookstore by June 30, 1997, and make adjustments to the authorized fund to adequately handle daily cash transactions.